95-1733 (1)

Supreme Court, U.S.
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No.

In the Supreme Court of the United States

OCTOBER TERM, 1995

UNITED STATES OF AMERICA, PETITIONER

v.

JUDGE TERRY J. HATTER, JR., ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

DREW S. DAYS, III
Solicitor General
FRANK W. HUNGER
Assistant Attorney General
PAUL BENDER
Deputy Solicitor General
PAUL R.Q. WOLFSON
Assistant to the Solicitor General
DOUGLAS N. LETTER
DAVID M. COHEN
JEANNE E. DAVIDSON
Attorneys
Department of Justice
Washington, D.C. 20530
(202) 514-2217

91pp

QUESTION PRESENTED

Whether Congress violated the Judges' Compensation Clause, U.S. Const., Art. III, § 1, when it extended the coverage of the Medicare hospital insurance program and the Social Security old-age, survivors, and disability insurance programs, including the taxes financing those programs, to the employment of Article III judges.

PARTIES TO THE PROCEEDINGS

The United States was the defendant in the Court of Federal Claims and the appellee in the court of appeals.

Respondents, who were plaintiffs in the Court of Federal Claims and appellants in the court of appeals, are Judges Terry J. Hatter, Jr., Peter H. Beer, Dudley H. Bowen, Jr., A.J. McNamara, Harry Pregerson, Raul A. Ramirez, Norman C. Roettger, Jr., Thomas A. Wiseman, Jr., Terence T. Evans, Henry A. Mentz, Jr., Wilbur D. Owens, Jr., Henry R. Wilholt, Jr., Harold A. Baker, and Michael M. Mihm; and Mary Martin Arceneaux, on behalf of the late Judge George Arceneaux, Jr, and Dolores Lee Burciaga, on behalf of the late Judge Juan G. Burciaga.

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PETITION FOR A WRIT OF CERTIORARI

The Solicitor General, on behalf of the United States of America, respectfully petitions for a writ of certiorari to review the judgment of the Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-13a), is reported at 64 F.3d 647. The opinion of the United States Court of Federal Claims, formerly the United States Claims Court (App., *infra*, 14a-37a), is reported at 31 Fed. Cl. 436. A prior opinion of the court of appeals (App., *infra*, 38a-47a) is reported at 953 F.2d 626. A prior opinion of the United States Claims Court (App., *infra*, 48a-54a) is reported at 21 Cl. Ct. 786.

JURISDICTION

The judgment of the court of appeals was entered on August 30, 1995. A petition for rehearing was denied on December 26, 1995. App., *infra*, 55a-56a. On March 15, 1996, the Chief Justice extended the time for filing a petition for a writ of certiorari to and including April 24, 1996. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

1. The Judges' Compensation Clause of Article III, Section 1, of the United States Constitution provides that "[t]he Judges, both of the supreme and inferior courts, * * * shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office."

2. Section 3101 of Title 26, United States Code, provides, in part:

> **(a) Old-age, survivors, and disability insurance**
>
> In addition to other taxes, there is hereby imposed on the income of every individual a tax equal to the following percentages of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b))—
>
> * * * * *
>
> **(b) Hospital insurance**
>
> In addition to the tax imposed by the preceding subsection, there is hereby imposed on the income of every individual a tax equal to the following

percentages of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b)) * * * .

3. Section 3121 of Title 26, United States Code, provides in part:

> **(b) Employment**
>
> For purpose of this chapter, the term "employment" means any service, of whatever nature, performed * * * ; except that such term shall not include— * * *
>
> > (5) service performed in the employ of the United States or any instrumentality of the United States * * * ; except that this paragraph shall not apply with respect to any such service performed on or after any date on which such individual performs— * * *
> >
> > > (E) service performed as the Chief Justice of the United States, an Associate Justice of the Supreme Court, a judge of a United States court of appeals, a judge of a United States district court (including the district court of a territory), a judge of the United States Court of Federal Claims, a judge of the United States Court of International Trade, a judge of the United States Tax Court, a United States magistrate, or a referee in bankruptcy or United States bankruptcy judge[.]
> >
> > * * * * *

(u) Application of hospital insurance tax to Federal, State, and local employment

(1) Federal employment

For purposes of the taxes imposed by sections 3101(b) and 3111(b), subsection (b) shall be applied without regard to paragraph (5) thereof.

STATEMENT

This case concerns the constitutionality of Congress's actions in 1983 and 1984 in bringing Article III judges (along with other federal employees) within the coverage of the Medicare hospital insurance program and the Social Security old-age, survivors, and disability insurance (OASDI) programs. Those actions extended the taxes financing those programs to the salaries of federal employees, including federal judges. Respondents are 16 federal judges who were appointed to the federal bench prior to 1983. In 1989, they sued for a refund or for damages in the amount of the Medicare and OASDI taxes imposed on their salaries after their appointments to the bench. They do not contend that they suffered a reduction in their gross salaries during their tenure. Rather, they argue that, because they were already in office when Congress extended Medicare and OASDI taxes to them, the assessment of those taxes constituted an unconstitutional diminution of their compensation. The court of appeals agreed.[1]

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[1] The taxes on employees' wages that finance in part the OASDI and Medicare programs are imposed by 26 U.S.C. 3101(a) and (b). Both Sections impose a tax on wages with respect to "employment," as defined in 26 U.S.C. 3121(b).

Section 3121(b) and a companion provision, Section 3121(u), have undergone several changes relevant to this case. Before September 3, 1982, Section 3121(b) excluded from the definition of "employment" "service performed in the employ of the United States * * * if such service is covered by a retirement system established by a law of the United States." 26 U.S.C. 3121(b)(6)(A) (1976). That provision exempted Article III judges from the Medicare and OASDI taxes, because those judges were (and are) covered by another retirement system established by 28 U.S.C. 371, which permits judges to retire from active service on annuity or full salary.

Congress extended the Medicare hospital insurance tax to federal judges' salaries in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), Pub. L. No. 97-248, Tit. II, Subtit. E, Pt. III, § 278, 96 Stat. 559-563. TEFRA added a new Section 3121(u)(1)(A), which provided that, "[f]or purposes of the [Medicare hospital insurance tax] imposed by section 3101(b) * * * paragraph (6) of [26 U.S.C. 3121(b)] shall be applied without regard to subparagraph[] (A) * * * thereof." 26 U.S.C. 3121(u)(1)(A) (1982); see 96 Stat. 559 (1982). TEFRA, in effect, instructed that the exclusion of federal judges' salaries from the definition of "employment" should be disregarded for purposes of the Medicare hospital insurance tax, and thus extended that tax (but not the OASDI tax) to judges' salaries.

Congress extended the OASDI tax to judges' salaries in the Social Security Amendments of 1983 (1983 Act), Pub. L. No. 98-21, 97 Stat. 65, which again amended 26 U.S.C. 3121. The 1983 Act redefined "employment" in Section 3121(b)(5) generally to exclude "service performed in the employ of the United States," but also excluded from that exclusion service performed by federal judges, among others. See 1983 Act § 101(b)(1), 97 Stat. 69. In addition, the 1983 Act amended Section 3121(u) to provide that, for the purpose of the Medicare tax, Section 3121(b) "shall be applied without regard to paragraph (5) thereof." 1983 Act § 101(b)(2), 97 Stat. 70. Because the 1983 Act excluded service by federal judges from the federal employment exclusion from the general definition of "employment," it subjected federal judges to the Medicare and

1. More than 90% of the paid civilian labor force is engaged in employment covered by the Social Security and Medicare programs. Those employees earn credits towards eligibility for Social Security and Medicare benefits and pay taxes on their wages to finance those programs. App., *infra*, 31a-32a. Before 1983, however, the employment of Article III judges (as well as most other federal employees) was excluded from the Medicare and OASDI programs. Most employees of the legislative and executive branches were required to contribute to the Civil Service Retirement System (CSRS) to obtain a retirement annuity. See 5 U.S.C. 8331 *et seq.* Article III judges were (and are) entitled to retire after meeting certain age and service requirements and to receive lifetime annuities equal to their salary at the time of retirement. See 28 U.S.C. 371(a). Article III judges could also qualify for both Social Security old-age and Medicare benefits on the basis of their prior employment outside the federal system, but they could not receive credits for either Social Security or Medicare coverage based on their federal employment, nor were they subject to OASDI or Medicare taxes on their federal judicial salaries.

On January 1, 1983, employees in all three branches of the federal government for the first time began to earn credits for Medicare coverage on the basis of their federal employment, and became subject to the Medicare hospital insurance portion of the Social

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OASDI taxes of Section 3101, which fall on all wages in respect of employment, unless excluded. Because the same Act directed that the exclusion of federal employees in Section 3121(b)(5) be disregarded for Medicare tax purposes, it again brought federal employees, including judges, within the coverage of the Medicare tax.

Security tax. One year later, on January 1, 1984, those employees also began to earn credits for Social Security coverage on the basis of federal service, and became subject to the OASDI tax.[2] The 1983 and 1984 amendments for the first time imposed Medicare and OASDI taxes on the President, Vice President, cabinet members, political appointees in the Senior Executive Service, Members of Congress, Article III

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[2] Eligibility for Medicare insurance benefits, in general, is tied to eligibility for Social Security old-age benefits. See 42 U.S.C. 426(a)(2)(A). Eligibility for old-age benefits is based on an individual's having paid OASDI taxes for 40 "quarters of coverage." See 42 U.S.C. 402(a), 414(a)(2). "Quarters of coverage" is tied to payment of "wages," which is defined in terms of remuneration for "employment." See 42 U.S.C. 409(a), 413(a)(2)(A).

Federal judges' entitlement to old-age and Medicare benefits has been extended in a series of enactments connected to the extensions of their coverage under the OASDI and Medicare taxes. See note 1, *supra*. Before Congress enacted TEFRA, service by federal judges was excluded from the Social Security Act's definition of "employment" by 42 U.S.C. 410(a)(6)(A) (1976), which excluded service by federal employees such as Article III judges who were covered by another retirement system established by federal law. That service, therefore, could not be counted towards eligibility for old-age or Medicare benefits. In TEFRA, Congress kept judges outside the OASDI system but brought them within the Medicare system by establishing a special category of "Medicare Qualified Federal Employment," such that service would count towards Medicare eligibility, but not old-age benefit eligibility. That category included service by Article III judges. See 42 U.S.C. 410(p)(2) (1982); 96 Stat. 560. In the Social Security Amendments of 1983, Congress excluded federal judges from the exclusion of employment for OASDI purposes. 97 Stat. 68; see 42 U.S.C. 410(a)(5)(E). The 1983 Act thereby made federal judges' service countable for old-age benefits and, by operation of 42 U.S.C. 426, Medicare benefits also.

judges, and all new executive and legislative branch employees, as well as any current employees not participating in CSRS. Those employees remain subject to Medicare and OASDI taxes today. See 26 U.S.C. 3121(b)(5).

Congress brought federal employees, including federal judges, within the Medicare and Social Security systems in part out of concern that those employees were not paying a fair share of the cost of financing the benefit programs. When Congress in 1982 enacted legislation to bring federal employees within the Medicare system,[3] the Senate Finance Committee noted as follows:

> Many active Federal civilian employees have worked long enough (or their spouses have) in employment covered by social security to become insured under the Hospital Insurance program. However, while most workers in covered social security employment are subject to the Hospital Insurance tax throughout their entire working careers, Federal employees may earn the same coverage with relatively fewer years of work subject to the tax. The committee believes that Federal workers should bear a more equitable share of the costs of financing the benefits to which many of them eventually become entitled.
>
> The bill, therefore, extends Medicare coverage to all members of the Federal workforce in the same way coverage is provided to most other workers.

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[3] See Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), Pub. L. No. 97-248, Tit. II, Subtit. E, Pt. III, § 278, 96 Stat. 559-563 (discussed at note 1, *supra*).

S. Rep. No. 494, 97th Cong., 2d Sess. 378 (1982). Similarly, when Congress in 1983 enacted legislation to bring federal employees (including federal judges) within the Social Security old-age benefit system,[4] the House Ways and Means Committee observed that the expansion of coverage to include "several groups of workers previously excluded from participation in the program" was intended to "maintain the social security program on a sound financial basis" and to "assur[e] both the short and long-term financial stability of the program." H.R. Rep. No. 25, 98th Cong., 1st Sess. 3 (1983).

2. Respondents filed suit in the United States Claims Court (now the Court of Federal Claims), seeking a refund of the Medicare and OASDI taxes imposed on their salaries. All respondents were already serving as federal judges when the extension of those taxes to federal employees' salaries took effect. They contended that the application of those taxes to their salaries violated the Judges' Compensation Clause of Article III, Section 1, of the Constitution, which provides that "[t]he Judges, both of the supreme and inferior Courts * * * shall, at stated Times, receive for their Services a Compensation, which shall not be diminished during their Continuance in Office." They relied in part on *Evans* v. *Gore*, 253 U.S. 245 (1920), in which this Court held (over the dissent of Justices Holmes and Brandeis) that the application of the federal income tax to the salary of a federal judge who was already in office when the tax was enacted violated the Judges' Compensation Clause.

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[4] See Social Security Amendments of 1983, Pub. L. No. 98-21, § 101, 97 Stat. 67-70.

The Claims Court initially concluded that it lacked jurisdiction over the suit because respondents had not filed prerequisite administrative claims for tax refunds with the Internal Revenue Service. App., *infra*, 48a-54a. The court of appeals reversed, however, and concluded that the Claims Court had jurisdiction over the case under the Tucker Act, 28 U.S.C. 1491(a)(1). App., *infra*, 38a-47a. The court of appeals concluded that, although respondents "could have pursued a tax refund," which would have required a prior administrative claim, they instead sought damages for a violation of the Judges' Compensation Clause. *Id.* at 45a. The court of appeals believed that respondents were entitled "to pursue their claim on any viable legal theory," and that "[c]onditioning redress of an alleged compensation clause breach on executive branch actions would frustrate the purpose of Article III, § 1." *Ibid.*

3. On remand, the Court of Federal Claims upheld the application of the taxes to judges' salaries, and accordingly granted summary judgment to the government and denied summary judgment to respondents. App., *infra*, 14a-37a. The court first reviewed (*id.* at 16a-18a) the holdings in *Evans* v. *Gore* and *Miles* v. *Graham*, 268 U.S. 501 (1925), which relied on *Evans* to hold that Congress could not constitutionally tax the salary of any Article III judge, even one who assumed office after the enactment of the challenged income tax. It then considered (App., *infra*, 18a-19a) the significance of this Court's decision in *O'Malley* v. *Woodrough*, 307 U.S. 277 (1939), in which this Court upheld application of the income tax to the salary of a federal judge, and stated that a "nondiscriminatory tax laid generally on net income is not * * * a diminution [of a federal judge's] salary within

the prohibition" of the Clause, *id.* at 282. The court concluded that "*O'Malley* left *Miles* effectively overruled," and that "*O'Malley* remains the most important precedent in the area of taxation of federal judges." App., *infra*, 18a-19a.

The court also considered the en banc decision of the Court of Claims in *Atkins* v. *United States*, 556 F.2d 1028 (1977), cert. denied, 434 U.S. 1009 (1978), in which that court rejected the contention of federal judges that inflation had effectively diminished their compensation, in violation of the Constitution.[5] The court noted that *Atkins* had stated that both *Evans* and *Miles* are "'no longer good law,'" and that *O'Malley* had "'overruled *Miles*, and by force of reasoning overruled a good deal of *Evans*.'" App., *infra*, 20a (quoting *Atkins*, 556 F.2d at 1043, 1044). It summarized *Atkins* as holding that the Judges' Compensation Clause prohibits any "direct diminution" of a judge's salary, such as a reduction in the number of dollars in the statutory salary, but that it does not prohibit an "indirect reduction," such as a new tax that "lowers the take-home pay of a judge but not the statutory salary"—at least absent any indication that the indirect reduction discriminated against federal judges. App., *infra*, 20a, 22a.

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[5] The Court of Claims was abolished in 1982, and its jurisdiction was transferred to the Court of Appeals for the Federal Circuit, which has appellate jurisdiction over decisions of the Court of Federal Claims, a trial-level court (previously called the United States Claims Court). Decisions of the Court of Claims are binding precedent in the Court of Appeals for the Federal Circuit and the Court of Federal Claims. See *South Corp.* v. *United States*, 690 F.2d 1368 (Fed. Cir. 1982); App., *infra*, 19a n.5.

Based on that summary, the court concluded that the taxes at issue in this case are valid. Although it acknowledged that this Court has never expressly overruled *Evans*, it declined to rely on that decision in light of *O'Malley* and *Atkins*, and it therefore concluded that the taxes are not invalid "direct diminutions" of respondents' salaries. App., *infra*, 24a-27a. It also rejected the contention that the new taxes discriminate against judges, and are therefore invalid "indirect diminutions" of their compensation.[6] The court concluded that "the central Compensation Clause taxation rule has not been violated: judges are being treated no worse than other federal employees and citizens." *Id.* at 34a.

4. The court of appeals reversed, and held that Congress's extension of the Medicare and OASDI taxes to the salaries of already commissioned federal judges violated the Judges' Compensation Clause. App., *infra*, 1a-13a. Framing the issue as "whether imposition of new taxes on judges after they have taken office unconstitutionally diminishes their compensation," the court concluded that this Court "addressed this very issue in *Evans*," which "controls this case." *Id.* at 5a-6a. "Federal law did not charge [respondents] with the duty of paying Social Security taxes when they first assumed office. Subsequent

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[6] With respect to the latter point, the court rejected respondents' argument that Congress can place generally applicable taxes on judges' salaries only at the time that it also levies those taxes on the public at large. App., *infra*, 27a-29a. It also rejected the argument that the new taxes discriminated between federal judges and other federal employees who had previously been covered by CSRS and who were permitted to offset their contributions to CSRS by the new amount of their Social Security taxes. *Id.* at 32a-34a.

imposition of the taxes reduced [their] salaries, as in *Evans*." *Id.* at 6a.

The court distinguished *O'Malley* as holding only that "newly appointed Article III judges must continue to pay income taxes just as they had prior to appointment." App., *infra*, 6a. As the court read that case, "[b]ecause the claimants in *O'Malley* took office after Congress had made income taxes applicable to judges' salaries, those judicial claimants suffered no diminishment in compensation after taking office. The tax was a pre-existing obligation factored into the new judges' compensation." *Id.* at 7a. The court acknowledged that *O'Malley* had "undermined the reasoning of *Evans*," but it stressed that *Evans* had never been expressly overruled by this Court. *Ibid.* It therefore concluded that it was obliged to follow *Evans*, and should "'leav[e] to this Court the prerogative of overruling its own decisions.'" *Id.* at 7a-8a (quoting *Rodriguez de Quijas* v. *Shearson/American Express, Inc.*, 490 U.S. 477, 484 (1989)).

The court of appeals also rejected the trial court's reliance on *Atkins* to draw a distinction between direct diminutions in judges' compensation and indirect ones, in the form of taxation. "'Compensation,'" it stated, "embraces all forms of remuneration, not merely salary. 'Diminished' embraces all means of decreasing, regardless of the intent or target of the reduction." App., *infra*, 8a. "Thus," the court held, "the Constitution protects judicial compensation against all forms of diminishment," *ibid.*, even diminishment in the form of the incidence of a generally applicable income tax.

REASONS FOR GRANTING THE PETITION

The court of appeals in this case held unconstitutional, as applied to all federal judges appointed before 1983, the Acts of Congress that extended the Medicare and Social Security taxes to the salaries of federal employees. In reaching that conclusion, the court followed this Court's decision in *Evans* v. *Gore*, 253 U.S. 245 (1920), even though it recognized that subsequent decisions of this Court, including *O'Malley* v. *Woodrough*, 307 U.S. 277 (1939), had "undermined the reasoning of *Evans*." App., *infra*, 7a. The court believed that it should "leav[e] to this Court the prerogative of overruling its own decisions." *Id.* at 7a-8a (quoting *Rodriguez de Quijas* v. *Shearson/American Express Co.*, 490 U.S. 477, 484 (1989)). A court of appeals decision invalidating federal legislation on that basis clearly warrants this Court's review.

In addition, the issues in this case have significance well beyond the constitutionality of the imposition of Social Security taxes on the salaries of sitting judges. Under the court of appeals' reasoning, Congress would also be prohibited from applying any increase in the *rate* of any tax, including the income tax, to sitting judges' salaries. That result would create serious practical difficulties in tax administration and would undermine Congress's goal of treating Article III judges as the equal of all other citizens in liability for federal taxes.

Although no other court of appeals has considered the precise issue presented, the Federal Circuit is a court of nationwide jurisdiction.[7] Taxpayers are

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[7] Other courts of appeals have, however, followed the test of *Atkins* v. *United States*, 556 F.2d 1028 (Ct. Cl. 1977), cert.

entitled to pay a challenged tax and sue for a refund in the Court of Federal Claims, and the Federal Circuit has held that the Court of Federal Claims has jurisdiction over respondents' complaint under the Tucker Act, 28 U.S.C. 1491(a)(1). See App., *infra*, 47a. Accordingly, any federal judge who wishes to challenge the application of a tax to his or her salary can sue in the Court of Federal Claims and gain the benefit of the court of appeals' decision in this case. Absent review by this Court, the decision of the Federal Circuit is therefore the effective law of the land. In similar circumstances, this Court has granted review of Federal Circuit decisions presenting issues of substantial and recurring importance. See, *e.g.*,

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denied, 434 U.S. 1009 (1978), that was rejected by the court of appeals in this case (App., *infra*, 8a): "Indirect, nondiscriminatory diminishments of judicial compensation, those which do not amount to an assault upon the independence of the third branch or any of its members, fall outside the protection of the Compensation Clause." 556 F.2d at 1045. In *Robinson* v. *Sullivan*, 905 F.2d 1199, 1202 (1990), the Eighth Circuit relied on *Atkins* to conclude that Congress's retroactive rescission of Social Security coverage for the employment of senior federal judges (which was in effect for one quarter) did not violate the Clause. In *Duplantier* v. *United States*, 606 F.2d 654, 669 (1979), cert. denied, 449 U.S. 1076 (1981), the Fifth Circuit relied on *Atkins* to conclude that the penalty provisions for violations of the disclosure requirements imposed on judges and other senior government employees by the Ethics in Government Act do not violate the Clause, even though they "may reduce a judge's disposable income." Most recently, in *Jefferson County* v. *Acker*, 61 F.3d 848 (1995), vacated for reh'g en banc, 73 F.3d 1066 (1996), a panel of the Eleventh Circuit concluded that a county occupation tax that was in the nature of an income tax, which was applied to all persons engaged in an occupation including federal judges, also did not violate the Clause as construed in *Atkins*.

United States v. *Hill*, 113 S. Ct. 941, 945 (1993); *United States* v. *American Bar Endowment*, 477 U.S. 105, 109 (1986).

1. The Federal Circuit concluded that *Evans* controls this case. In *Evans*, the Court held that the Judges' Compensation Clause barred the application of the income tax to federal judges' salaries. *Evans* involved a tax levied under a 1919 statute on the salary of a federal judge appointed in 1899 (see 253 U.S. at 246), but the opinion did not limit the holding to situations where the judge's appointment predates the imposition of the tax. Rather, the majority relied (*id.* at 255) on intergovernmental tax immunity cases such as *Collector* v. *Day*, 78 (11 Wall.) 113 (1871), and *Pollock* v. *Farmers' Loan & Trust Co.*, 157 U.S. 429 (1895), for the broad proposition that the Framers "were so sedulously bent on securing the independence of the judiciary [that they] intended to protect the compensation of judges from assault and diminution in the name and form of a tax[.]" 253 U.S. at 256. The Court concluded that the judge's "compensation is protected from diminution in any form, whether by a tax or otherwise, and is assured to him in its entirety for his support." *Id.* at 263.

Justice Holmes, joined by Justice Brandeis, dissented and stated that the imposition of an income tax upon judges is constitutional as long as it does not single out judicial compensation but, rather, applies with like force to all citizens. Justice Holmes argued that the constitutional imperative of protecting judicial independence "is a very good reason for preventing attempts to deal with a judge's salary as such, but seems to me no reason for exonerating him from the ordinary duties of a citizen, which he shares with all others." 253 U.S. at 265. "To require a man to pay

the taxes that all other men have to pay," he continued, "cannot possibly be made an instrument to attack his independence as a judge. I see nothing in the purpose of this clause of the Constitution to indicate that the judges were to be a privileged class, free from bearing their share of the cost of the institutions upon which their well-being if not their life depends." *Ibid.*

In *Miles* v. *Graham*, 268 U.S. 501 (1925), the Court relied on *Evans* to hold that the Compensation Clause barred the imposition of income tax on the salary of a judge appointed after the enactment of the tax (see *id.* at 505). The Court concluded that the compensation was fixed by statute, "and to exact a tax in respect of this would diminish it within the plain rule of *Evans* v. *Gore*." *Id.* at 509. In essence, the Court held that federal judges' salaries must be free of all taxes.

Fourteen years later, the Court abandoned "the plain rule of *Evans* v. *Gore*" and embraced the Holmes-Brandeis view that judicial salaries are as subject to taxation as the salaries of other citizens. In *O'Malley* v. *Woodrough*, 307 U.S. 277 (1939), the Court, considering another attempt by Congress to require judges to pay income tax, held that "a nondiscriminatory tax laid generally on net income is not, when applied to the income of a federal judge, a diminution of his salary within the prohibition" of the Constitution. *Id.* at 282. To subject judges to a general tax "is merely to recognize that judges are also citizens, and that their particular function in government does not generate an immunity from sharing with their fellow citizens the material burden of the government whose Constitution and laws they are charged with administering." *Ibid.*

O'Malley expressly overruled *Miles*. 307 U.S. at 282-283. It did not expressly overrule the holding of *Evans*, for Congress had structured the income tax act under review "to avoid, at least in part, the consequences of" that decision, by making the tax applicable only to the salaries of judges appointed after its effective date. See *id.* at 279-280. The Court did disapprove the reasoning of that decision, however:

> [T]he meaning which *Evans* v. *Gore* imputed to the history which explains Article III, § 1, was contrary to the way in which it was read by other English-speaking courts. The decision met wide and steadily growing disfavor from legal scholarship and professional opinion. *Evans* v. *Gore* itself was rejected by most of the courts before whom the matter came after that decision.

307 U.S. at 281 (footnotes omitted).[8]

The Court considered the significance of *O'Malley*, *Miles*, and *Evans* in *United States* v. *Will*, 449 U.S. 200 (1980). In that case, federal judges challenged the repeal by Congress of legislated increases in judicial salaries four years in a row. Two of the annual increases were revoked by Congress before they became effective, but two were cancelled after their effective dates. The Court held that Congress may not withdraw an increase in gross judicial salary once it has gone into effect, but that Congress may cancel a prospective statutory salary increase before it takes effect. With respect to the latter situation, the

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[8] Justice Butler's dissent in *O'Malley* also noted that, "[e]vidently, the Court intends to destroy the decision in *Evans* v. *Gore*. Without suggesting that there is any distinction between that case and *Miles* v. *Graham*, it declares that the latter " 'cannot survive.' " 307 U.S. at 297.

Court disapproved the district court's reliance on *Evans* v. *Gore* as a basis for holding that the rescission of the salary increase before its effective date reduces the amount of compensation that a judge has been promised. 449 U.S. at 200. Rather, the Court stated:

> In *O'Malley* v. *Woodrough*, 307 U.S. 277 (1939), this Court held that the immunity in the Compensation Clause would not extend to exempting judges from paying taxes, a duty shared by all citizens. The Court thus recognized that the Compensation Clause does not forbid everything that might adversely affect judges. The opinion concluded by saying that to the extent *Miles* v. *Graham*, 268 U.S. 501 (1925), was inconsistent, it "cannot survive." 307 U.S. at 282-283. *Because Miles relied on Evans v. Gore, O'Malley must also be read to undermine the reasoning of Evans.*

449 U.S. at 227 n.31 (emphasis added).

2. Despite this Court's disapproval of the reasoning in *Evans* in both *O'Malley* and *Will*, the court of appeals concluded that *Evans* was still the controlling decision with regard to the facts of the present case, in which respondents are challenging a tax that was first imposed on judicial salaries after they took office. It attempted to reconcile *Evans* and *O'Malley* by holding that, under *Evans*, Congress may not impose *new* taxes on the salaries of already sitting federal judges (even if those taxes do not discriminate against judges), while under *O'Malley*, "nondiscriminatory taxation of a judge *who took office after the tax went into effect* does not violate the Compensation Clause." App., *infra*, 11a. The

court's reasoning was that, in the former case, the already sitting judge's compensation is "diminished" by the effect of the new tax, while in the latter case, "the taxation formed part of that judge's compensation scheme from the outset of his tenure." *Ibid.*

The interpretation of the Judges' Compensation Clause reflected in the court of appeals' opinion is erroneous: that Clause does not bar Congress from imposing new, nondiscriminatory taxes on the salaries of already sitting federal judges. Because the court of appeals believed that its decision was compelled by the precedential force of *Evans*, this Court should grant review to overrule *Evans* definitively. The Court should also make clear that the imposition of a nondiscriminatory tax on the salary of a federal judge does not "diminish" that judge's "compensation," whether the tax was enacted before or after the judge took office.

Evans relied on a constitutional theory that has since been disapproved. The Court relied on its intergovernmental tax immunity decisions, as well its observation in several cases that "the power to tax carried with it 'the power to embarrass and destroy,'" to conclude that the Framers must have intended "to protect the compensation of the judges from assault and diminution in the name or form of a tax." 253 U.S. at 255-256. In effect, the Court concluded in *Evans* that judges' salaries must be absolutely immune from congressional taxation.

The rationale of *Evans* has not survived closer scrutiny over time. The intergovernmental immunity cases on which it relied for support by analogy have been "thoroughly repudiated." *South Carolina* v. *Baker*, 485 U.S. 505, 520, 524 (1988) (overruling *Pollock* v. *Farmers' Loan & Trust Co.*, 157 U.S. 429

(1895)); see *Graves* v. *New York ex rel. O'Keefe*, 306 U.S. 466 (1939) (overruling *Collector* v. *Day*, 78 (11 Wall.) 113 (1871)). In particular, in *Graves*, decided the same Term as *O'Malley*, the Court noted that the purpose of intergovernmental tax immunity is "not to confer benefits on [governmental] employees by relieving them from contributing their share of the financial support of the other government, whose benefits they enjoy * * * but to prevent undue interference with one government by imposing on it the tax burdens of the other." 306 U.S. at 483-484. The Court held there that a nondiscriminatory state income tax that falls on federal employees as well as others does not "impose a burden on the national government tantamount to an interference by one government with the other in the performance of its functions." *Id.* at 480-481.

This Court's more recent decisions on the Judges' Compensation Clause do not support the view that the application of a nondiscriminatory tax to judges' salaries violates that Clause by "diminishing" the judges' compensation, even in the case of judges appointed before the tax took effect. As the Court explained in *Will*, the purpose of the Clause is to secure "a truly independent judiciary, free of improper influences from other forces within government." 449 U.S. at 218. Subjecting judges' salaries to generally applicable taxes poses no threat to the constitutional value protected by the Clause. Rather, it acknowledges that "judges are also citizens, and that their particular function in government does not generate an immunity from sharing with their fellow citizens the material burden of the government whose Constitution and laws they are charged with administering." *O'Malley*, 307 U.S. at 282 (footnote omitted); see also

Will, 449 U.S. at 226 ("Federal judges, like all citizens, must share 'the material burden of the government.'"). That is true whether Congress imposes an entirely new tax on the income of all citizens, including federal judges, or (as in this case) brings federal judges' salaries within the coverage of a tax that has long been applied to the vast majority of the paid labor force.[9]

The Framers' objective was to preclude "a plan fashioned by the political branches * * * ineluctably operating to punish the judges *qua* judges, or to drive them from office despite the Constitution's guarantee of tenure in office 'during good Behaviour.'" *Atkins*, 556 F.2d at 1054. But, as Justice Holmes observed in *Evans* (253 U.S. at 265), the need to protect judges from improper political influences does not require or justify providing them with a perpetual immunity from the burdens of citizenship that all other citizens must bear. The trial court in this case correctly summarized the purpose of the Clause when it explained:

> [T]he purpose of the Compensation Clause is not to make irrevocable every momentary tax exemption enjoyed by sitting judges relative to the public; its purpose is rather to protect the independence of the judicial branch by insuring that

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[9] In *Will*, the Court held that a direct reduction in the statutory salary of federal judges violated the Clause, even though the reduction also affected salaries of employees in the Legislative and Executive Branches and was therefore arguably "nondiscriminatory." 449 U.S. at 226. The Court distinguished the case of taxation, and cited with approval *O'Malley*'s holding that the Clause "was not offended by an income tax levied on Article III judges as well as on all other taxpayers." *Ibid.*

> judges are shielded from attempts by the political branches to impose economic duress. This underlying purpose leads to the simple rule of thumb which governs this case: in general, if judges are treated like other citizens by the tax laws, no threat to judicial independence arises, and so the Compensation Clause is not implicated. Congress always has the power to place judges in tax parity with other citizens.

App., *infra*, 29a (citations omitted).

Congress's imposition of Social Security and Medicare taxes on the salaries of sitting federal judges cannot conceivably be considered a "financially based attack on judicial independence" (*Atkins*, 556 F.2d at 1054). Nothing in the circumstances surrounding Congress's extension of those taxes to federal judges suggests that Congress's purpose was to undermine the independence federal judges, or that the taxes could reasonably be perceived as having that purpose or effect. Indeed, Congress has almost doubled federal judicial salaries since 1983. See C.A. App. A139. Rather, Congress ensured that judges are treated, for purposes of the Social Security and Medicare programs, in the same way as the 90% of the paid civilian labor force that pays Social Security taxes and accrues eligibility for Social Security and Medicare benefits after retirement.

3. The court of appeals' decision also warrants review because the logic of its ruling is not confined to the incidence of the imposition of a *new* tax on judges' incomes. If, as the court of appeals believed, "'[d]iminished' embraces all means of decreasing, regardless of the intent or target of the reduction" (App., *infra*, 8a), then sitting judges' salaries pre-

sumably are "diminished" whenever Congress raises the *rate* of a generally applicable income tax. Accordingly, the Judges' Compensation Clause would be violated if, for example, Congress raised federal income tax rates or raised the Social Security tax rate imposed generally on employees' wages. Indeed, if, as respondents suggest, judges' "compensation," within the meaning of the Clause, is actually their salary after taxes, then the Clause would be violated if Congress reduced or eliminated deductions and credits that federal judges, like all other citizens, could use to reduce the amount of their income tax.

Such an interpretation of the Clause would "trivialize the great historic experience on which the framers based the safeguards of Article III, § 1." *O'Malley*, 307 U.S. at 282. It would also create considerable practical difficulties in tax administration. Congress would have to freeze the income tax rate, deductions, and credits applicable to every federal judge (insofar as the tax fell on the judge's salary) at the moment that each judge took office. That requirement would also create serious inequities among Article III judges. Alternatively, Congress could impose on all federal judges the lowest income tax rate that was applicable when any sitting member of the federal judiciary first took office; but that approach would also be quite difficult to administer, and would result in serious inequities between Article III judges and all other citizens.[10] Congress

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[10] Assume, for example, that the marginal income tax rate applicable to federal judges' salaries was 25% before 1985, was raised to 30% in 1985, and was raised to 35% in 1990. Under the first alternative described in the text, judges would be subject to different income tax rates depending on their dates of appointment. Under the second alternative, the marginal

would be limited to the same alternatives for the Social Security tax.[11] Both results are at odds with the Court's admonitions that "judges are also citizens," and that the Clause does not give judges "an immunity from sharing with their fellow citizens the material burden of the government whose Constitution and laws they are charged with administering." *Ibid.*[12]

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income tax on the salary of all federal judges could not be raised above 25%, even though all other citizens in the same income tax bracket would now be taxed at the 35% marginal tax rate.

[11] Congress could, of course, eliminate the service of federal judges from the Social Security and Medicare programs.

[12] There is a threshold question whether some of the members of this Court are disqualified from hearing and deciding this case. As of January 1, 1983, when the Medicare tax on judicial salaries first took effect, three Justices were already serving on this Court, and four Justices were already serving on the federal courts of appeals. If those Justices were eligible to receive refunds of the taxes challenged in this case, they arguably would have "a financial interest in the subject matter in controversy" that would require disqualification under 28 U.S.C. 455(b)(4). It appears, however, that the statute of limitations has run for any such claim by a Justice who has not already filed a complaint or claim for a tax refund. Assuming that the applicable statute of limitations is 28 U.S.C. 2401(a), the general statute of limitations for civil actions against the United States, such an action is barred unless a complaint was filed "within six years after the right of action first accrues." This case was not brought as a class action. Therefore, any claim based on the effect of Medicare and OASDI taxes before April 24, 1990—six years before the filing date of this petition—has expired. (In fact, we believe that the applicable statute of limitations is the less generous provision in 26 U.S.C. 6511(a), which requires that a tax refund claim be filed "within 3 years from the time the return is filed or 2 years from the time the tax was paid, whichever of such periods expires the later.")

With respect to the possibility of claims accruing after April 24, 1990, the substantial increase in judicial salaries between the imposition of the taxes challenged in this case and that date would appear to preclude such claims. From December 17, 1982, to December 31, 1983, circuit judges were paid an annual salary of $77,300, and Associate Justices an annual salary of $93,000. That is the compensation that was purportedly "diminished" when Medicare and OASDI taxes first became applicable to judicial salaries. As of January 31, 1990, circuit judges received an annual salary of $102,500, Associate Justices a salary of $118,600, and the Chief Justice a salary of $124,000. See C.A. App. 139; Exec. Order No. 12,387, 47 Fed. Reg. 44,981 (1982); Exec. Order, No. 12,456, 49 Fed. Reg. 347 (1984); Exec. Order No. 12,698, 54 Fed. Reg. 53,473 (1989). As of January 31, 1990, the increases in judicial salaries, even after federal income, Medicare, and OASDI taxes, would appear to have offset any purported "diminution" in compensation caused by the imposition of Medicare and OASDI taxes in 1983 and 1984.

This case may also affect Congress's authority in the future to impose new taxes on judicial salaries, or to raise tax rates applicable to those salaries. In that sense, all the members of the Court arguably have a financial interest in the controversy, or perhaps some "other interest that could be substantially affected by the outcome of the proceeding." 28 U.S.C. 455(b)(4); see also 28 U.S.C. 455(a) (requiring disqualification whenever a judge's or Justice's "impartiality might reasonably be questioned"). The same could be said, however, of every Article III judge. If, in consequence, the disqualification provisions of Section 455(b)(4) were implicated, no federal judge could decide this case. In such circumstances, the Rule of Necessity permits this Court to decide the constitutional issues presented by the petition. See *Will*, 449 U.S. at 217.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

DREW S. DAYS, III
Solicitor General

FRANK W. HUNGER
Assistant Attorney General

PAUL BENDER
Deputy Solicitor General

PAUL R.Q. WOLFSON
Assistant to the Solicitor General

DOUGLAS N. LETTER
DAVID M. COHEN
JEANNE E. DAVIDSON
Attorneys

APRIL 1996

APPENDIX A

UNITED STATES COURT OF APPEALS FOR FEDERAL CIRCUIT

No. 94-5139

JUDGE TERRY J. HATTER, JR., MARY MARTIN ARCENEAUX, ON BEHALF OF THE LATE JUDGE GEORGE ARCENEAUX, JR., JUDGE PETER H. BEER, JUDGE DUDLEY H. BOWEN, JR., CHIEF JUDGE JUAN G. BURCIAGA, JUDGE A. J. MCNAMARA, JUDGE HARRY PREGERSON, JUDGE RAUL A. RAMIREZ, JUDGE NORMAN C. ROETTGER, JR., CHIEF JUDGE THOMAS A. WISEMAN, JR., CHIEF JUDGE TERENCE T. EVANS, JUDGE HENRY A. MENTZ, JR., CHIEF JUDGE WILBUR D. OWENS, JR., JUDGE HENRY R. WILHOIT, JR., JUDGE HAROLD A. BAKER, AND CHIEF JUDGE MICHAEL M. MIHM, PLAINTIFFS-APPELLANTS,

v.

THE UNITED STATES, DEFENDANT-APPELLEE

[Filed: Aug. 30, 1995]

Before: ARCHER, Chief Judge, PLAGER, and RADER, Circuit Judges.

RADER, Circuit Judge.

Sixteen federal judges challenged the withholding of Social Security taxes from their judicial salaries as a violation of the Compensation Clause of the United States Constitution, Article III, section 1. Accordingly, they sought a tax refund or recovery of their diminished compensation. The United States Court of Federal Claims granted the Government summary judgment. *Hatter v. United States*, 31 Fed.Cl. 436 (1994). Because the Compensation Clause forbids diminishments in the compensation of Article III judges after they have taken office, and because the trial court did not determine whether a diminution in fact occurred, this court reverses and remands.

BACKGROUND

Until 1983, judges appointed under Article III of the Constitution, like most federal employees, did not participate in the Social Security program. Most legislative and executive federal employees acquired a retirement annuity by contributing to the Civil Service Retirement System. 5 U.S.C. §§ 8331-51 (1994). After meeting age and service requirements, however, Article III judges receive a retirement annuity equal to their judicial salaries without making additional payments. 28 U.S.C. § 371(a) (1988 & Supp. V 1993).

In the early 1980s, Congress ordered withholding of certain components of the Social Security tax from the salaries of most federal employees, including Article III judges. Withholding of the Hospital Insurance portion began on January 1, 1983. Tax Equity and Fiscal Responsibility Act of 1982, Pub.L.

No. 97-248, § 278(a), 96 Stat. 324, 559, 562 (codified as amended at 26 U.S.C. § 3121(u) (1988)). Withholding of the Old Age and Survivors Disability Insurance portion began on January 1, 1984. Social Security Amendments of 1983, Pub.L. No. 98-21, § 101(a)(1), (b)(1) & (d), 97 Stat. 65, 67-70 (codified as amended at 26 U.S.C. § 3121(b)(5)(E) (1988 & Supp. V 1993) and 42 U.S.C. § 410(a)(5)(E) (1988 & Supp. V 1993)).

Sixteen Article III judges—all appointed before January 1, 1983—sued in the Court of Federal Claims for a refund of these Social Security taxes or recovery of their diminished compensation. The judges claimed that the taxation diminished their judicial compensation in violation of the Compensation Clause of the Constitution. The trial court granted the Government summary judgment that the Compensation Clause does not prohibit application of the tax to sitting Article III judges. *Hatter*, 31 Fed.Cl. at 445-47. The claimants appealed.

DISCUSSION

This court reviews a grant of summary judgment by the Court of Federal Claims *de novo*. *Cohen v. United States*, 995 F.2d 205, 207 (Fed.Cir. 1993).

I.

The Constitution's Compensation Clause states:

> The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services a Compensation, *which shall not be diminished during their Continuance in Office.*

U.S. Const. art. III, § 1 (emphasis added). This constitutional language protects one of the most

remarkable innovations of the 1787 document: a judicial branch sufficiently independent to enforce constitutional limitations on all branches of Government. The Supreme Court acknowledged:

> The Compensation Clause has its roots in the longstanding Anglo-American tradition of an independent Judiciary. A Judiciary free from control by the Executive and Legislature is essential if there is a right to have claims decided by judges who are free from potential domination by other branches of government.

United States v. Will, 449 U.S. 200, 217-18, 101 S.Ct. 471, 482, 66 L.Ed.2d 392 (1980). Alexander Hamilton, writing in *The Federalist* No. 79, explained the Framers' reasoning for this means of protecting the separation of powers: "In the general course of human nature, a power over a man's subsistence amounts to a power over his will." *The Federalist* No. 79, at 472 (Clinton Rossiter ed., 1961) (emphasis omitted).

To provide a judiciary with sufficient independence to protect constitutional rights against any incursion, the Framers adopted an unrestricted protection for judicial compensation. Judicial independence, Alexander Hamilton prophetically noted, would prove "the citadel of the public justice and the public security." *The Federalist* No. 78, at 466 (Clinton Rossiter ed., 1961). Thus, as the Supreme Court concluded:

> [T]he prohibition against diminution was not to benefit the judges, but, like the clause in respect of tenure, to attract good and competent men to the bench and to promote that independence of action and judgment which is essential to the main-

> tenance of the guaranties, limitations, and pervading principles of the Constitution and to the administration of justice without respect to persons and with equal concern for the poor and the rich.

Evans v. Gore, 253 U.S. 245, 253, 40 S.Ct. 550, 553, 64 L.Ed. 887 (1920). For these reasons, the Constitution's language broadly prohibits any diminution in judicial compensation during a judge's continuance in office.

II.

This case raises the question whether imposition of new taxes on judges after they have taken office unconstitutionally diminishes their compensation. The Supreme Court addressed this very issue in *Evans*. In *Evans*, the Court held that the Compensation Clause prohibited imposition of the newly enacted income tax on sitting judges. Examining the broad constitutional protection for judicial independence, the Court wrote:

> The prohibition is general, contains no excepting words and appears to be directed against all diminution, whether for one purpose or another; and the reasons for its adoption . . . make with impelling force for the conclusion that the fathers of the Constitution intended to prohibit diminution by taxation as well as otherwise,—that they regarded the independence of the judges as of far greater importance than any revenue that could come from taxing their salaries.

Id. at 255, 40 S.Ct. at 553; *see also id.* at 249-52, 40 S.Ct. at 553.

When the judges in *Evans* first assumed office, Congress had not charged them with the duty of paying income taxes. Thus, the imposition of these taxes on their salaries acted as a reduction in their salary. As the Court observed:

> Here the Constitution expressly forbids diminution of the judge's compensation, meaning, as we have shown, diminution by taxation or otherwise .... [T]he compensation suffers a diminution to the extent that it is taxed.

Id. at 264. The Court therefore invalidated application of the income tax to judges who had taken office prior to the tax.

Evans controls this case. The claimants here are Article III judges who took office prior to imposition of the Social Security taxes in question. Federal law did not charge the claimants with the duty of paying Social Security taxes when they first assumed office. Subsequent imposition of the taxes reduced the claimants' salaries, as in *Evans*.

The subsequent Supreme Court case of *O'Malley v. Woodrough*, 307 U.S. 277, 59 S.Ct. 838, 83 L.Ed. 1289 (1939), does not affect this analysis. In that case, the Court held that newly appointed Article III judges must continue to pay income taxes just as they had prior to appointment:

To subject them to a general tax is merely to recognize that judges are also citizens, and that their particular function in government does not generate an immunity from sharing with their fellow citizens the material burden of the govern-ment whose Constitution and laws they are charged with administering. *Id.* at 282, 59 S.Ct. at 840.

Because the claimants in *O'Malley* took office after Congress had made income taxes applicable to judges' salaries, those judicial claimants suffered no diminishment in compensation after taking office. The tax was a pre-existing obligation factored into the new judges' compensation. On this basis *O'Malley* is distinguishable from *Evans* and the facts of this case. In *Evans* and this case, the claimants were already judges when the Social Security taxes took effect. The taxes therefore affected the claimants' established compensation. Thus, Congress's imposition of the Social Security tax on the claimants triggered scrutiny under the Compensation Clause.

The Supreme Court has stated that *O'Malley* "undermined the reasoning of *Evans*." *United States v. Will*, 449 U.S. 200, 227 n. 31, 101 S.Ct. 471, 487 n. 31, 66 L.Ed.2d 392 (1980). This court's predecessor has made the same point. *See Atkins v. United States*, 556 F.2d 1028, 1044, 214 Ct.Cl. 186 (1977) (en banc), *cert. denied*, 434 U.S. 1009, 98 S.Ct. 718, 54 L.Ed.2d 751 (1978). Neither of these pronouncements, however, are sufficient to overrule *Evans*. Had changes in judicial doctrine in fact "removed or weakened the conceptual underpinnings" of *Evans*, the Court itself would have overruled the case. *Patterson v. McLean Credit Union*, 491 U.S. 164, 173, 109 S.Ct. 2363, 2370-71, 105 L.Ed.2d 132 (1989). It has not done so. Further, as the Supreme Court recently stated:

> If a precedent of this Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly

> controls, leaving to this Court the prerogative of overruling its own decisions.

Rodriguez de Quijas v. Shearson/American Express, Inc., 490 U.S. 477, 484, 109 S.Ct. 1917, 1921-22, 104 L.Ed.2d 526 (1989). Again, the Supreme Court has never overruled *Evans*. *Evans* governs this case more directly than *O'Malley*.

The trial court erred by upholding the imposition of Social Security taxes on the claimants on the grounds that such taxation was both "generally applicable" and "non-discriminatory." *See O'Malley*, 307 U.S. at 282, 59 S.Ct. at 840; *see also Atkins*, 556 F.2d at 1045. The trial court holding thus interprets the Constitution's Compensation Clause to forbid only discriminatory taxes which single out the federal judiciary. In other words, the trial court in effect read the term "compensation" as synonymous with "salary," and "diminished" as synonymous with "intentionally reduced." This reading limited the protections for judicial independence to discriminatory attacks on the judiciary in the form of direct reductions in salary.

The words of the Constitution are not so limited, nor are its protections for judicial independence. "Compensation" embraces all forms of remuneration, not merely salary. "Diminished" embraces all means of decreasing, regardless of the intent or target of the reduction. Thus, the Constitution protects judicial compensation against all forms of diminishment.

The Constitution's enactment history supports this reading of the Compensation Clause. On June 13, 1787, the Constitutional Convention's Committee of the Whole drafted a resolution prohibiting Congress from either increasing or decreasing the compen-

sation of judges. Clinton Rossiter, *1787: The Grand Convention* 365 (1966). Gouveneur Morris opposed the prohibition on increases, as he believed that Congress should have the power to augment judicial compensation "as circumstances might require" to avoid "any improper dependence in the judges." 2 Max Farrand, *Records of the Federal Convention of 1787* at 44 (1911). Benjamin Franklin agreed and specified two circumstances—increases in workload and inflation of the currency—which would justify an increase. *Id.* at 44-45.

James Madison favored retaining the ban on increases in compensation. He feared that judges might unduly defer to Congress during legislative consideration of pay raises. *Id.* at 45. In other words, the Convention was unanimous on the overriding concern of protecting the judicial branch against meddling with its compensation. Further, the Convention voiced grave concerns about potential compromises in judicial independence if judges faced the prospect of seeking legislative redress of compensation concerns. In sum, the Convention perceived only mischief in the prospect of judges approaching the legislative branch to seek proper compensation. Ultimately, on a vote of 6-2, with one state absent, the Convention permitted increases and forbade all decreases in judicial compensation. *Id.* at 45.

Alexander Hamilton later explained this result:

> It will readily be understood that the fluctuations in the value of money and in the state of society rendered a fixed rate of compensation in the Constitution inadmissible. What might be extravagant today might in half a century become

> penurious and inadequate. It was therefore necessary to leave it to the discretion of the legislature to vary its provisions in conformity to the variations in circumstances, yet under such restrictions as to put it out of the power of that body to change the condition of the individual [judge] for the worse.

The Federalist No. 79, at 473 (Alexander Hamilton) (Clinton Rossiter ed., 1961). According to Hamilton, the Compensation Clause's term "diminished" forbids any action which changes the "condition of the individual [judge] for the worse." *Id.*

James Madison concurred in Hamilton's analysis and extended the coverage of the term "compensation" to all "emoluments" of the judicial office:

> [M]embers of each department should be as little dependent as possible on those of the others for the emoluments annexed to their offices. Were the executive magistrate, or the judges, not independent of the legislature in this particular, their independence in every other would be nominal.

The Federalist No. 51, at 321 (James Madison) (Clinton Rossiter ed., 1961). In sum, the Convention considered judicial independence a core value of the Constitution and adopted a broad protection for it. *See Will*, 449 U.S. at 217-21, 101 S.Ct. at 481-84; *Evans*, 253 U.S. at 252-55, 40 S.Ct. at 552-54.

The text and history of the Compensation Clause do not support the test applied by the trial court. The Supreme Court itself suggested as much in *Will* where, in considering Congress's rescission of judicial pay raises, the Court stated: "the Constitution makes no exceptions for 'nondiscriminatory' reductions." *Will*, 449 U.S. at 226, 101 S.Ct. at 486.

The Government's attempt to limit this statement in *Will* to 'direct diminutions' is unpersuasive. *O'Malley*, distinguished by the *Will* Court as applying a nondiscrimination test, held that nondiscriminatory taxation of a judge *who took office after the tax went into effect* does not violate the Compensation Clause. In such circumstances, the taxation formed part of that judge's compensation scheme from the outset of his tenure. *See O'Malley*, 307 U.S. at 282, 59 S.Ct. at 838.

Nor does *Atkins* provide support for application of a nondiscrimination test to the taxes imposed in this case. In *Atkins*, the United States Court of Claims found that Congress' failure to raise judicial salaries during a period of high inflation was not an actionable diminution under the Compensation Clause, because the plaintiff judges could not show that Congress intended an attack on the judiciary's independence.

However appropriate it may be to consider whether inflation diminishes judicial compensation in a discriminatory fashion, as in *Atkins*, or applies taxes of general applicability to judges taking office after such taxes are effective, as in *O'Malley*, neither the Compensation Clause nor Supreme Court precedent supports applying a non-discrimination test to the imposition of a new tax, even though generally applicable, on sitting judges. As indicated above, the controlling Supreme Court precedent, *Evans*, instructs otherwise. *Evans*, 253 U.S. at 254-55, 40 S.Ct. at 553-54. Under *Evans*, only judges who took office prior to the imposition of the new Social Security taxes suffered a diminution.

III.

The trial court did not determine whether the Social Security taxes in this case in fact diminished the claimants' compensation. Although noting that inclusion in Social Security might not result in an overall reduction of compensation, *Hatter*, 31 Fed.Cl. at 441 n. 9, the trial court assumed a reduction, noting the decrease at least in take-home pay, for the purpose of resolving the summary judgment motions before it and proceeding to the constitutional issue.

As noted, the term "compensation" extends beyond mere salary, and includes all forms of remuneration attached to the judicial office. Therefore, the claimants' new Social Security retirement benefits, if any, are part of their compensation. These future benefits, however, are not vested in any manner. They thus do not give the claimants a certain entitlement to any offsetting sum. In addition, innumerable individual scenarios could eliminate a claimant's potential Social Security benefit, or greatly reduce the amount of the potential benefit. Because of all the variables that would have to be taken into account in arriving at even a rough estimate of a current discounted value for Social Security benefits that might be payable in the future, it is impossible accurately to weigh these benefits against the taxes withheld from the claimants.

It is certain, however, that the Social Security taxes diminished the claimants' salaries by specific amounts. The reduction was concrete, while the potential future benefit is entirely speculative. A speculative, incalculable future benefit cannot offset a

concrete, present reduction.* The Social Security taxes therefore diminished the claimants' compensation in violation of the Compensation Clause.

CONCLUSION

Social Security taxes diminish the compensation of Article III judges who took office prior to enactment of the taxes. This court therefore reverses and remands the case for tax refunds or recoveries for the sums improperly withheld from the claimants' salaries.

COSTS

Each party shall bear its own costs.

REVERSED and REMANDED.

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* If the future benefits were calculable and marketable, however, an unconstitutional diminution in compensation would occur when a present reduction exceeded the present value of the future benefits minus reasonable transaction costs in marketing them.

APPENDIX B

UNITED STATES COURT OF FEDERAL CLAIMS

No. 705-89 C

JUDGE TERRY J. HATTER, JR., ET AL., PLAINTIFFS,

v.

UNITED STATES OF AMERICA, DEFENDANT

[Filed: June 22, 1994]

OPINION AND ORDER

TURNER, Judge.

This opinion addresses plaintiffs' motion for summary judgment filed September 2, 1993 and defendant's cross-motion for summary judgment filed October 1, 1993. Oral argument was heard on November 16, 1993. The parties agree that there are no material disputed facts. We conclude that defendant's cross-motion should be granted.

I

Plaintiffs are federal district and circuit court judges who took office prior to January 1, 1983. On that date, all federal judges for the first time became subject to the Hospital Insurance (Medicare) portion of the Social Security tax. Tax Equity and Fiscal Responsibility Act, Pub.L. No. 97-248, § 278(a) 96 Stat. 324, 559 (1982) (codified as amended at 26 U.S.C. (I.R.C.) § 3121(u) (1988)). One year later, judges

became subject to the Old Age Survivors and Disability Insurance portion of the Social Security tax, and since January 1, 1984, all federal judges have been fully subject to Social Security taxes. Social Security Amendments of 1983, Pub.L. No. 98-21, § 101(a)(1), (b)(1) and (d), 97 Stat. 65, 68, 69 (codified as amended at 26 U.S.C. (I.R.C.) § 3121(b)(5)(E) (1988) and 42 U.S.C. § 410(a)(5)(E) (1988)). Social Security taxes have therefore been duly withheld from plaintiffs' monthly compensation since the effective dates of these acts.

Plaintiffs all serve pursuant to Article III of the Constitution, which in pertinent part provides that federal judges "shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office." U.S. Const. art. III, § 1 (hereafter the "Compensation Clause").

Plaintiffs contend that because they were already judges when the withholding of Social Security taxes from their pay began, their compensation was diminished in violation of the Compensation Clause. In the alternative, plaintiffs claim a contract right to undiminished compensation. Plaintiffs seek a refund of all Social Security taxes collected thus far.

After a review of Compensation Clause law in part II, we consider plaintiffs' four main constitutional arguments in part III, and then address plaintiffs' contract claim in part IV.

II

A

An income tax on judges was first imposed in 1862 and was collected for several years. Act of July 1, 1862, ch. 119, § 86, 12 Stat. 432, 472 (1862). This law

occasioned the Supreme Court's first pronouncement on the constitutionality of taxing judges. It came as an extraordinary 1863 protest against the tax issued in the form of a letter from Chief Justice Taney to the Treasury Secretary. This remarkable document, officially recorded and published by the Court[1] and resembling nothing so much as an unsolicited advisory opinion, was echoed several years later by an opinion from the Attorney General that the income tax was unconstitutional as applied to judges. 13 Op.A.G. 161 (1869). As a consequence, all taxes which had been collected on judicial compensation were refunded in 1873. *Wayne v. United States*, 26 Ct.Cl. 274, 290, 1800 WL 1765 (1891). But these two seemingly non-binding opinions had an even more powerful effect: the courts came to consider the matter of judicial taxation closed without ever actually addressing the issue. *E.g.*, *Wayne*, 26 Ct.Cl. at 290.

The courts finally addressed the matter when, subsequent to ratification of the 16th Amendment in 1913,[2] Congress in 1919 made its second serious attempt to tax federal judges. Revenue Act of 1918, ch. 18, § 213, 40 Stat. 1057, 1065 (1919). Thus the first Compensation Clause case of precedential significance does not appear until *Evans v. Gore*, 253 U.S. 245, 40 S.Ct. 550, 64 L.Ed. 887 (1920). In *Evans*, a federal judge who had taken office in 1899 challenged

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[1] The letter is found at 157 U.S. 701. There was a 32-year lapse between the 1863 order of the Court recording the letter and its publication.

[2] "The Congress shall have power to lay and collect taxes on incomes, *from whatever source derived*, without apportionment among the several states, and without regard to any census or enumeration." U.S. Const. amend. XVI (emphasis added).

the Revenue Act of 1918, arguing that the income tax was an unconstitutional diminution of his salary.

Over a vigorous dissent by Justice Holmes, joined by Justice Brandeis, the Court agreed with the plaintiff judge, holding that an income tax on judges was an impermissible diminution in compensation, and that the Compensation Clause continued to prohibit taxation of judicial salaries even after the 16th Amendment. Holmes's position in dissent, since adopted by the Court as will be seen, was that an income tax on judges would be valid so long as it did not single out judicial compensation but rather applied with like force to the income of all citizens. 253 U.S. at 264-67, 40 S.Ct. at 557-58.

The taxing authorities refused to give in so easily. In *Miles v. Graham*, 268 U.S. 501, 45 S.Ct. 601, 69 L.Ed. 1067 (1925), the government sought to limit the *Evans* rule, arguing that the tax protection of the Compensation Clause shielded only judges appointed before the tax became law (hereafter "prior judges").[3] According to the government, prior judges stood in contrast to judges taking office after the tax (hereafter "new judges"): taxation would not diminish the compensation of new judges, since they would never have received their salary untaxed. In *Miles*, the plaintiff was a new judge who argued, in essence, that the Compensation Clause's protection extended to judicial compensation as an entity or institution, without regard to whether the recipient judge took office before or after enactment of the tax.

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[3] Plaintiffs here are all prior judges, since they took office before the Social Security tax extended to the judiciary.

The Court in *Miles* agreed with the plaintiff, firmly rejecting the government's attempt to limit the *Evans* tax exemption to prior judges. (Brandeis, but not Holmes, dissented without comment.) Relying heavily on *Evans*, *Miles* made explicit the simple rule inferable from *Evans*: under the constitution, all judicial compensation provided for by Congress was tax-free. 268 U.S. at 509, 45 S.Ct. at 602.

In a familiar pattern, it was not long before the initially rejected Holmes-Brandeis formulation (calling for judicial salary to be treated the same for tax purposes as income earned by any citizen) was, in effect, adopted by the Court. This development came after Congress in 1932 made its third attempt to tax the judiciary, imposing another income tax limited to new judges. Revenue Act of 1932, ch. 209, § 22(a), 47 Stat. 169, 178 (1932). Predictably, a new judge challenged this tax based on the rule of *Miles*. *O'Malley v. Woodrough*, 307 U.S. 277, 59 S.Ct. 838, 83 L.Ed. 1289 (1939) (Frankfurter, J.).

For the tax collectors, the third time proved the charm: the Court reversed course, issuing its first rejection of a judge's Compensation Clause challenge to a tax. The Court held that judicial compensation could be taxed, approving Congress's "position that a non-discriminatory tax laid generally on net income is not . . . a diminution [of a federal judge's] salary within the prohibition" of the Compensation Clause. 307 U.S. at 282, 59 S.Ct. at 840. According to the Court, the constitution did not excuse judges from the obligations of citizenship. *Id.* *O'Malley* left *Miles* effectively overruled.[4]

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[4] The court's language is to some degree unclear as to the fate of *Miles*: "But to the extent that what the Court now says

Justice Frankfurter in *O'Malley* also sharply criticized *Evans*, but in a characteristic exercise of judicial restraint was careful to note that only the question of tax immunity for *new* judges was properly at bar, whereas the plaintiff in *Evans* had been a prior judge. *O'Malley*, 307 U.S. at 281-82, 59 S.Ct. at 839-40. As will be seen, *O'Malley* remains the most important precedent in the area of taxation of federal judges.

A generation after *O'Malley*, the Court of Claims[5] thoroughly reviewed Compensation Clause law in *Atkins v. United States*, 214 Ct.Cl. 186, 556 F.2d 1028 (1977) (en banc), *cert. denied*, 434 U.S. 1009, 98 S.Ct. 718, 54 L.Ed.2d 751 (1978). This review was occasioned by the suit of a group of federal judges who claimed that their compensation, though nominally unchanged since 1969, had in fact been unconstitutionally eroded by inflation. In rejecting this claim, the Court of Claims gave valuable guidance on the import of *O'Malley* and its predecessors.

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is inconsistent with what was said in *Miles v. Graham*, 268 U.S. 501, 45 S.Ct. 601, the latter cannot survive." 307 U.S. at 282-83, 59 S.Ct. at 840.

[5] In 1982 the Court of Claims and the Court of Customs and Patent Appeals were abolished. Judges of those two courts became judges on the new Court of Appeals for the Federal Circuit. *See* Federal Courts Improvement Act of 1982, Pub.L. No. 97-164, tit. I, § 165, 96 Stat. 25, 50 (1982) (codified as amended at 28 U.S.C. § 44 (1988)). Court of Claims decisions constitute precedent for this court to the same extent as decisions of the Federal Circuit. *South Corp. v. United States*, 690 F.2d 1368 (Fed.Cir.1982).

In analyzing the Supreme Court's holding in *O'Malley*, the Court of Claims in *Atkins* stated that both *Evans* and *Miles* are "no longer good law," *id.*, 214 Ct.Cl. at 213, 556 F.2d at 1043. According to the Court of Claims, *O'Malley* "overruled *Miles*, and by force of reasoning overruled a good deal of *Evans*," *id.* at 215, 556 F.2d at 1044.[6]

Atkins fleshes out the distinction between indirect and direct diminution first alluded to by the Supreme Court in *Evans*, 253 U.S. at 254, 40 S.Ct. at 553. A direct diminution is a reduction in the number of dollars authorized by Congress for a judge's salary, while an indirect reduction, for instance "by virtue of a tax," lowers the take-home pay of a judge but not the statutory salary. *Atkins*, 214 Ct.Cl. at 215, 556 F.2d at 1044. Given that "the purpose of the Compensation Clause is to preclude a financially based attack on judicial independence," *id.* at 222, 556 F.2d at 1048, cases of indirect diminution are to be handled differently from cases of direct diminution. The Court of Claims explained that while the Supreme Court's Compensation Clause cases uniformly agreed that direct diminutions were always prohibited, after *O'Malley* "[i]ndirect, nondiscriminatory diminishments [like taxes] . . . which do not amount to an assault on the independence of the third branch . . . [are not prohibited by] the Compensation Clause," *id.* at 216, 556 F.2d at 1045.

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[6] Also interesting in this regard is Justice Butler's dissent in *O'Malley* itself, which states that the majority in *O'Malley* "intend[ed] to destroy the decision in *Evans v. Gore*." 307 U.S. at 297, 59 S.Ct. at 846.

The 1977 *Atkins* decision is in full accord with the later Supreme Court Compensation Clause case of *United States v. Will*, 449 U.S. 200, 101 S.Ct. 471, 66 L.Ed.2d 392 (1980), which dealt with a direct diminution. In *Will*, scheduled increases in judicial, congressional, and top-level executive pay were withdrawn for four years running, twice just before the raises took hold, and twice just after. Upon a suit by federal judges, the Court held that while the political branches may cancel a prospective judicial salary increase, any increase allowed to become effective even for less than a day is permanent for Article III judges. 449 U.S. at 224-26, 101 S.Ct. at 485-86.

The *Will* decision buttresses the implication of the Court of Claims in *Atkins* that all direct reductions of judicial compensation are invalid regardless of congressional intent: speaking of direct diminutions, the Court said "the Constitution makes no exceptions for 'nondiscriminatory' reductions." 449 U.S. at 226, 101 S.Ct. at 486. As to indirect diminutions, not at issue in *Will*, the Court was not quite so clear. Still, *Will* gives some guidance on indirect diminutions like taxes: the Court discussed *O'Malley* with apparent approval, noting that *O'Malley* validated income taxation of judicial salaries and "recognized that the Compensation Clause does not forbid everything that might adversely affect [the finances of] judges." *Id.* at 227 n. 31, 101 S.Ct. at 486 n. 31. In fact, *Will* may have left open the possibility that even a congressional intent to pressure the judiciary might not invalidate an indirect diminution: "[w]e need not address the question of whether evidence of an intent to influence the Judiciary would invalidate a statute that on its face does not directly reduce judicial compensation."

Id. at 226 n. 30, 101 S.Ct. at 486 n. 30.[7] Of course, in the absence of facts showing bad legislative intent, this legal question is moot. *Atkins*, 214 Ct.Cl. at 216, 228, 235, 556 F.2d at 1045, 1051, 1055.

B

The following two rules and one corollary emerge from the foregoing review of the Compensation Clause case law.[8] First, direct diminution of the salary authorized for federal judges is absolutely forbidden, no matter how innocent the intent of Congress is. Second, so-called indirect diminishments, and specifically income taxes, are permissible even if they result in a reduction in take-home pay for federal judges, *at least* so long as they are not part of an assault on judicial independence. This rule's corollary is that if there is no evidence of legislative intent to influence the judiciary, taxes of general applicability are valid as to Article III judges.

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[7] The Court of Claims, albeit also in *dicta*, took a firmer stand on this issue, indicating that an indirect diminution which discriminated against judges would be remediable by the courts. *Atkins*, 214 Ct.Cl. at 222-23, 556 F.2d at 1048.

[8] *Atkins* as it applies to this case is primarily dicta, since *Atkins* dealt with the impact of inflation on judicial buying power rather than with an impact caused by congressional action. *Will* is likewise not on all fours here, dealing as it does with a direct diminution rather than a tax. *O'Malley*, however, is almost directly on point, with the only arguable distinction being that it does not overtly deal with the problem of taxation of prior judges. Still, as we demonstrate, the *dicta* from *Atkins* and *Will*, read together with the all-important holding in *O'Malley*, form a consistent and common-sensical body of law governing the instant case.

Thus the question in this case is not whether the plaintiffs' compensation has been reduced by Social Security taxes, for at least in terms of take-home pay it has been, but rather whether this indirect reduction is of the type forbidden by the Compensation Clause.[9] As will be shown below, under *O'Malley* and subsequent cases, the answer is no.

III

As to the Compensation Clause claims, (Second Am.Cplt. Counts I-II at 7-8), four basic themes, some of them related, emerge from plaintiffs' briefs and oral argument. First, plaintiffs contend that in overruling *Miles* but not *Evans*, the Supreme Court meant to limit the original broad holding of *Evans* to the following still vital rule: "[E]ven a tax of general applicability cannot be imposed upon [prior] judges who were appointed . . . before the tax became law." Pl.Br. at 29. To some extent linked with this reading

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[9] For the purpose of resolving the motions at bar, we accept plaintiffs' assumption that inclusion in Social Security represents a reduction in judicial pay. But this proposition is by no means settled. If plaintiffs were to prevail in this litigation, and all affected judges were effectively taken out of Social Security and refunded their Social Security taxes, Compensation Clause claims by judges who felt their compensation had been decreased would surely result. For instance, though plaintiffs here claim Social Security coverage *reduces* their compensation, in *Robinson v. Sullivan*, 905 F.2d 1199 (8th Cir. 1990) (Wollman, J.), a senior judge who was retroactively denied Social Security credit for service during a brief window of Social Security coverage for senior judges challenged the denial as a Compensation Clause diminution. This argument was rejected on the grounds that his temporary coverage under Social Security was "not a direct *increase*" in compensation. 905 F.2d at 1202 (emphasis added).

of *Evans* is plaintiffs' second contention that no taxation of judges is permissible if it makes judicial service relatively less attractive than it was when a judge took office. Pl. Br. at 20-21; Pl. Reply at 12-13. Plaintiffs' third argument is that the Social Security tax at issue here is not even an income tax of general applicability such as was permitted to be laid on judges by *O'Malley*. Pl. Br. at 25-26; Pl. Reply at 25-26; Tr. 15-16. Somewhat related to this argument is plaintiffs' last main point: that the scheme designed to bring federal employees under Social Security coverage discriminated against the plaintiff judges compared to other federal workers. Pl. Br. at 37-8, 40, 43; Tr. at 16-17, 19, 72-74. We discuss these four themes in turn.

A

Plaintiffs' first contention is that the factually similar *Evans* case (discussed above in part II A) controls here, and thus that new taxes cannot be imposed on prior judges even if all other citizens are included in the new tax. Pl. Br. at 28-29. While it is true that the Supreme Court has never expressly overruled *Evans*, subsequent Court of Claims and Supreme Court cases convince us it would be irresponsible to dispose of this controversy on that ground. The Supreme Court itself long ago criticized the *Evans* case, *O'Malley*, 307 U.S. at 280-82, 59 S.Ct. at 839-40 (1939), and more recently confirmed that *Evans* has been "undermine[d]," *Will*, 449 U.S. at 227 n. 31, 101 S.Ct. at 486 n. 31. Additionally in *Will*, the Supreme Court reversed a trial judge who expressly relied on *Evans*, albeit in a factually distinguishable case. *Will*, 449 U.S. at 227, 101 S.Ct. at 486-87.

Such negative Supreme Court guidance certainly discourages automatic reliance on *Evans*. But in addition, the *Will* and *O'Malley* decisions at the very least strongly suggest that a tax or other statute which indirectly reduces judicial pay is permissible absent evidence of a congressional intent to influence the judiciary. *Will*, 449 U.S. at 226-27 & nn. 30-31, 101 S.Ct. at 486-87 & nn. 30-31; *O'Malley*, 307 U.S. at 282, 59 S.Ct. at 840. Moreover, the Court of Claims stated that the Supreme Court has effectively overruled *Evans* "*at least* as regards [new] judges," *Atkins*, 214 Ct.Cl. at 215, 556 F.2d at 1044 (emphasis added).

Even in the face of this negative treatment, plaintiffs persist in their claim that though the broad rationale of *Evans* has certainly been narrowed by subsequent case law, the fact that *Evans* has never been expressly overruled means that some part of the holding survives. Pl.Br. at 28. According to plaintiffs, the surviving rule of *Evans* is that under the Compensation Clause, prior judges have more tax protection than new judges: you can't charge a prior judge new taxes. Pl. Br. at 28-29. Adopting this distinction between new and prior judges would require us to read much into *Evans*, because that case nowhere suggested such a difference. In fact the Court in *Evans* broadly defined the issue in that case as the taxability of the "compensation of federal judges *in general*," 253 U.S. at 247, 40 S.Ct. at 551 (emphasis added). We understand that the distinction between prior and new judges was arguably drawn by omission in *O'Malley* when the Court expressly limited its holding to new judges. 307 U.S. at 281-82, 59 S.Ct. at 839-40. But unlike the Court in *O'Malley*, here we are squarely addressed with the question of whether new judges have less tax protection than

prior ones under the constitution. *O'Malley's* failure to expressly address the propriety of new taxes on prior judges is typical of the judicial restraint that Justice Frankfurter was known for, and is not a ruling against such taxation.[10]

Only the quite proper use of judicial restraint in *O'Malley* and later in *Will* prevented the Supreme Court from overruling *Evans*. Now that the question of whether prior judges should be afforded more Compensation Clause protection than new judges is at bar for the first time since the discredited *Miles* decision, reaching back to the 1920 *Evans* case to resolve the question in plaintiffs' favor would require us to willfully ignore the intervening, and uniformly critical, case history. This we decline to do, although because this history developed in factually distinguishable situations, the question in a narrow technical sense will arguably remain open until the Supreme Court addresses the point. As discussed above, the more recent Supreme Court and Court of Claims cases on the Compensation Clause counsel reliance on the dissenting view of Holmes in *Evans* rather than on the majority.[11] Therefore, we hold that

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[10] *See Jefferson County v. Acker*, 850 F.Supp. 1536, 1548 (N.D.Ala.1994) (indicating in *dicta* that new judges would be entitled to the same Compensation Clause protection as the prior judges who were plaintiffs in the case).

[11] Plaintiffs agree that the Court of Claims in *Atkins* read the Supreme Court decision in *O'Malley* to adopt Holmes's dissent in *Evans*. Pl. Br. at 33. (A district judge evaluating *O'Malley* recently came to the same conclusion. *Acker*, 850 F.Supp. at 1546.) Though plaintiffs argue that the *Atkins* and Holmes rule allowing judicial salaries to be taxed is incompatible with the *Will* approach banning any diminution in gross judicial pay, Tr. at 70-71, we disagree. As we explained above

judicial salary, like other components of a judge's income, is taxable. *Will*, 449 U.S. at 227 n. 31, 101 S.Ct. at 486 n. 31 (citing with approval *O'Malley*, 307 U.S. 277, 59 S.Ct. 838 (1939)); *Evans*, 253 U.S. at 265-66, 40 S.Ct. at 557 (Holmes, J., dissenting); *Atkins*, 214 Ct.Cl. at 216, 556 F.2d at 1044-45.

B

Given that we decline to rely on *Evans*, plaintiffs, in the alternative, claim that the statutes in question violate the Compensation Clause by wiping out a tax advantage prior judges enjoyed relative to other citizens, a situation plaintiffs contend to be different from that presented in *Evans*. Plaintiffs argue that in *Evans*, a new tax was imposed on both judges and other citizens "at the same time;"[12] in contrast,

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in part II A, in actuality *Atkins* and *Will* are complementary because they deal with different facts. *Will* expressed the absolute Compensation Clause protection which exists when judicial pay is directly diminished, while the more flexible rule developed in *Atkins* indicates that in cases of indirect, take-home pay diminution like taxation, an inquiry into congressional intent is needed.

[12] Pl. Reply at 16 n. 7. It is unclear what plaintiffs mean by "at the same time." While it certainly is true that the Revenue Act of 1918 (which was at issue in *Evans*) did for the first time tax the income of judges, § 213, 40 Stat. at 1065, it is also true that the Revenue Acts of 1916 and 1917 had already imposed broad-ranging income taxes, although exempting judges already in office, ch. 463, § 4, 39 Stat. 756, 759 (1916); ch. 63, § 1200, 40 Stat. 300, 329 (1917). Thus, the income tax was imposed on the public years before judges were included. Only by artificially viewing each successive year's income tax statute in isolation can it be said that the Revenue Act of 1918 imposed a tax on the public and on judges "at the same time." But for purposes of this discussion only, we accept plaintiffs' characterization.

plaintiffs here were subjected to the extension of an old tax they had escaped by becoming judges, thereby unconstitutionally costing sitting judges an advantage they held relative to non-judges. Pl. Reply 16 n. 7. As we will show, plaintiffs' attempt to distinguish their case from *Evans* fails.

1

Plaintiffs argue that to be valid, any new tax on prior judges must be simultaneous with taxation of the public. Pl. Reply at 16 n. 7; Tr. at 9-10. This is so because as long as an identical burden is simultaneously laid on the public and the judiciary, not even prior judges have suffered a diminution relative to other citizens[13] and so their judicial independence is not potentially threatened. Tr. at 9-10; *see* Pl. Br. at 16, 35-37; Pl. Reply at 19, 21. On the other hand, reason plaintiffs, the taking away of a tax exemption or other advantage held by prior judges relative to other citizens does potentially threaten judicial independence because it singles out judges.[14] *See* Pl. Br. at 20-21, 34; Pl. Reply at 16 n. 7, 19.

Looking past the terms of plaintiffs' seemingly novel relativity argument to its substance, it appears plaintiffs' position at bottom is nothing more remarkable than that a new tax laid wholesale on prior judges and the public is not discriminatory.[15]

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[13] Hereafter, we may refer to this as the "simultaneity requirement."

[14] Hereafter, we may refer to this as plaintiffs' "relativity" argument or analysis.

[15] Plaintiffs posit a scenario (first rhetorically raised in *Atkins*, 214 Ct.Cl. at 223, 556 F.2d at 1048) in which an enormous tax is laid across the land and then all other federal workers or citizens except judges get a raise or some other

While this may be true, it provides no support for plaintiffs' further implication that a tax placed on the public and only later extended piecemeal to prior judges automatically violates the Compensation Clause as a potential threat to the independence of prior judges.

Plaintiffs have pointed to no good reason why Congress in taxing judges has the power to accomplish wholesale what it cannot do piecemeal. *See, e.g.*, Pl. Br. at 34; Pl. Reply at 2-3, 9-10, 12-13, 16 n. 7. Plaintiffs equate comparative tax advantages enjoyed by judges with direct increases in judicial pay, arguing that both should at inception be permanent for judges then in office. Pl.Br. at 30-31, 34; Tr. at 8-9. But the purpose of the Compensation Clause is not to make irrevocable every momentary tax exemption enjoyed by sitting judges relative to the public; its purpose is rather to protect the independence of the judicial branch by insuring that judges are shielded from attempts by the political branches to impose economic duress. *O'Malley*, 307 U.S. at 282, 59 S.Ct. at 840; *Evans*, 253 U.S. at 265-67, 40 S.Ct. at 557-58 (Holmes, J., dissenting); *see Atkins*, 214 Ct.Cl. at 223, 556 F.2d at 1048-49. This underlying purpose leads to the simple rule of thumb which governs this case: in general, if judges are treated like other citizens by the tax laws, no threat to judicial independence arises, and so the Compensation Clause is not implicated. Congress always has the power to place judges in tax parity with other citizens.

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kind of relief. Pl. Br. at 36 n. 22. Suffice it to say that we do not here prejudge such a case.

2

Plaintiffs profess not to rely on *Evans* in deriving the simultaneity requirement for the taxation of prior judges. But plaintiffs' simultaneity requirement leads inescapably to the conclusion that the Compensation Clause provides the class of prior judges more tax protection than it does to new judges. This is the very conclusion that we rejected in refusing to rely on *Evans* above in part A. The new packaging does not yield a different result. Barring some sort of targeted discrimination, the finances of one individual judge or even a class of judges is not the concern of the Compensation Clause.[16] There is no requirement that prior judges be treated any differently from new judges for tax purposes: a judge escapes neither the present nor the future obligations of citizenship by taking the oath of office.

C

Plaintiffs go on to claim that even with the above arguments conceded Social Security is not a tax of general applicability like the one which was held proper as to judges in *O'Malley*. Pl. Reply at 24-25; Tr. at 15-16, 72-73. In this vein, plaintiffs first contend that Social Security is not an income tax, but is

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[16] The proper constitutional focus is on the interaction between the branches of government, not on the appointment dates of individual judges. (It might be said that plaintiffs' analysis neglects the constitutional dimension of this case in favor of the astronomical.) The Compensation Clause is "not a private grant of privilege [to judges] but a limitation intended to benefit the public at large," *Atkins*, 214 Ct.Cl. at 223, 556 F.2d at 1049. The same idea is expressed in *Will*, 449 U.S. at 217, 101 S.Ct. at 481-82 and *O'Donoghue v. United States*, 289 U.S. 516, 533, 53 S.Ct. 740, 744, 77 L.Ed. 1356 (1933).

rather a contributory public benefit plan. *E.g.* Pl.Br. at 26-27. In addition, plaintiffs maintain that Social Security taxes are not a truly general obligation of citizenship because the plan is not universal. *Id.*; Tr. at 72-73.

1

A close reading of plaintiffs' arguments shows that they do not seriously contend that Social Security is a contractual benefit plan rather than an income tax. In fact, plaintiffs themselves note that Social Security benefits are by no means guaranteed, and that the Congress could limit or cancel benefits under the program. Tr. at 10-11 (citing *Bowen v. Public Agencies Opposed to Soc. Secur. Entrapment*, 477 U.S. 41, 51-52, 106 S.Ct. 2390, 2396-97, 91 L.Ed.2d 35 (1986)). We agree. Of course, the taking of money by the federal government with no specific return obligation is typical of tax schemes, including income taxes. And, in fact, Social Security has long been treated as an income tax by courts. *Helvering v. Davis*, 301 U.S. 619, 634-35, 57 S.Ct. 904, 905-06, 81 L.Ed. 1307 (1937). It is plain that Social Security imposes an income tax.

2

At the heart of plaintiffs' argument that Social Security is not a tax of general applicability is the contention that the Social Security income tax is not sufficiently widespread. *See* Pl.Br. at 26, 36-37; Tr. at 72. We disagree. Social Security is a tax of general applicability, and so can be applied to federal judges. The parties have stipulated to the following facts: during 1984, the percentage of the paid civilian labor force covered by Social Security climbed from 91 percent to 93 percent, Jt. Stip. ¶ 18 (Appendix C to Pl.

Br.), even while the paid civilian labor force increased from 102.2 million workers to 105.5 million, Jt. Stip. ¶ 27 (Table 4).

This amounts to effectively universal coverage of the nation's work force.[17] Given the web of exemptions and deductions allowed by Congress in virtually all areas of taxation, it is doubtful if any federal tax is of general applicability in the sense of applying to 100 percent of the possible taxpayers. We do not need to decide the boundaries of the term "a tax of general applicability" today. It is enough to say that the Social Security income tax, which at all times relevant to this litigation covered over 90 percent of paid civilian workers, is a tax of general applicability like that held valid as to judges by the Supreme Court in *O'Malley*.

D

Plaintiffs' last main Compensation Clause contention, somewhat linked to the idea that Social Security is not a tax of general applicability, is that the plaintiff judges were discriminated against as compared to the other federal employees affected by the same Social Security amendments. Pl. Br. at 37-38, 40, 43; Pl. Reply at 24; Tr. at 12, 15-17, 19, 22-23, 72-74. Plaintiffs contend that a Compensation Clause violation arises because judges, unlike all other federal employees, faced a mandatory reduction in take-home pay. Pl.Br. at 40, 43; Tr. at 74-75.

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However, using federal employees instead of the general public as the Compensation Clause bench-

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[17] In September 1983, there were over 2.7 million federal employees. Jt. Stip. P 19.

mark to determine the validity of a tax does not help plaintiffs in this case, since for purposes of this discussion the two groups have historically been treated alike.

Most federal employees have long been required to contribute to retirement plans in order to obtain retirement benefits. *See* 5 U.S.C. §§ 8331-48 (1988). This does not apply to Article III judges, whose basic retirement plan is free, and provides for lifetime full pay when certain age and length of service requirements are met. 28 U.S.C. § 371 (1988). By the acts challenged here, Congress expanded Social Security to cover most federal positions, including Article III judgeships, for the first time. Jt. Stip. ¶ 20. Speaking generally, Congress reduced or offset the contribution federal employees were required to make to their retirement plan by the amount of any newly required Social Security tax. Pl. Proposed Findings of Uncontroverted Fact ¶ 11 ("PPUF"). The retirement plan benefits of federal employees were correspondingly reduced to account for any newly expected Social Security benefits. *E.g.*, Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983, Pub.L. 98-168, § 206(c)(2), 97 Stat. 1106, 1109-10 (1983) (codified as amended in a note after 5 U.S.C. § 8331 (1988)). The net result of inclusion in Social Security for most federal workers thus was no change in take-home pay or benefits. It is plainly the view of Congress that the Social Security tax is fungible with the other retirement payments required of federal employees. Thus, both before and after the acts in question, almost all non-judicial federal employees, like over 90 percent of the nation's civilian workers, paid Social Security taxes or a mandatory equivalent.

Judges, with no retirement plan contributions to offset, were unique among federal employees in seeing their take-home pay necessarily decrease by the amount of the Social Security tax. PPUF ¶ 12. But this happened only because judges, unlike other federal employees and citizens, were never before required to pay into Social Security or a retirement plan equivalent to Social Security. There is no reason that tax burdens equivalent to those long required of other federal employees and working citizens cannot be extended to judges. *See supra*, part B(1). Here, the central Compensation Clause taxation rule has not been violated: judges are being treated no worse than other federal employees and citizens.

2

Even if we were to assume that the Social Security taxes at issue here did hurt judges compared to other federal workers, plaintiffs' Compensation Clause claim would not succeed. This is because in cases of indirect reduction in judicial compensation, it is an open question whether evidence of Congressional intent to pressure the judiciary would be enough to invalidate a statute. *Will*, 449 U.S. at 226 n. 30, 101 S.Ct. at 486 n. 30. At any rate, without evidence of such an intent this legal question is moot. *Atkins*, 214 Ct.Cl. at 216, 228, 235, 556 F.2d at 1045, 1051, 1055.

In this case, there is absolutely no evidence of an intent to influence the judiciary. This conclusion is not disputed by plaintiffs, Pl. Br. at 21-22; *see* Pl. Reply at 2; rather, plaintiffs' by-now familiar argument is that any reduction in take-home pay should be handled like a direct reduction in salary, that is to say it is prohibited by the Compensation

Clause regardless of congressional intent. Pl.Br. at 21-23; Pl. Reply at 2, 10, 12; Tr. at 69, 71-72.

As indicated above, plaintiffs' conclusion ignores two related rules of Compensation Clause jurisprudence. First, in case of an indirect diminution of judicial compensation, it is *at least* arguable that judges seeking relief under the Compensation Clause for an indirect reduction in pay must show not just a discriminatory effect but an intent to influence the judiciary. *See Will*, 449 U.S. at 226 n. 30, 101 S.Ct. at 486 n. 30; *Atkins*, 214 Ct.Cl. at 233, 556 F.2d at 1054. Second and more important to the instant case, it is clear that if the indirect diminution is due to a tax of general applicability and the possibility of discriminatory legislative intent has been ruled out, the tax is valid under the Compensation Clause. *O'Malley*, 307 U.S. at 282, 59 S.Ct. at 840; *Atkins*, 214 Ct.Cl. at 216, 556 F.2d at 1044-45. That is the case here.

IV

Plaintiffs claim that if their constitutional argument fails, they still may be able to prevail on a contract theory. Second Am.Cplt. Count III at 8-9. Defendant has moved for summary judgment on the contract claim, maintaining that judges serve pursuant to appointment, not contract. Def.Br. at 38-41.

Plaintiffs are unable to cite any convincing authority for the proposition that judges are contract employees. *See, e.g.*, Pl. Reply at 27-29; Tr. at 31- 38. Plaintiffs point chiefly to *Embry v. United States*, 100 U.S. 680, 25 L.Ed. 772 (1879), wherein the Supreme Court made the following statement: "No officer except the President or a judge of a court of the United States can claim a contract right to any

particular amount of unearned compensation." 100 U.S. at 685. While this isolated sentence may be in plaintiffs' favor, the case it comes from is not. The holding of *Embry* is not that judges have a contract right to compensation while in office; in fact, the case is not about judges at all, nor even about incumbent officeholders. Instead, *Embry* holds that non-judicial federal officers such as postmasters do not have a contract right to compensation while suspended from office. 100 U.S. at 685. Since judges can only be impeached, not suspended, *Embry* has no relevance here. At any rate, the sentence relied on by plaintiffs, besides being taken out of context, is wholly unnecessary to the holding of the case and thus a textbook example of *dicta*.

Plaintiffs claim that even if *Embry* is distinguishable, this case falls squarely under the rule of *Johnson v. United States*, 111 Ct.Cl. 750, 79 F.Supp. 208 (1948). Tr. at 66. Again, we disagree. Johnson involved a judge who resigned from office. The Court of Claims found that such a judge has a contract or property right to his retirement pay. 111 Ct.Cl. at 756, 79 F.Supp. at 211. Without assessing the validity of this *Johnson* holding today, we note that a judge who resigns (as the plaintiff did in *Johnson*) is no longer a federal officeholder. *Booth v. United States*, 291 U.S. 339, 348-50, 54 S.Ct. 379, 380-81, 78 L.Ed. 836 (1934). At best for plaintiffs, *Johnson* holds that judges who resign from office in reliance on future retirement payments may have a contract remedy. The Johnson case has no applicability to cases involving compensation for sitting Article III judges.[18]

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[18] This conclusion is strengthened by the fact that the Court of Claims in *Johnson* did not once cite the *dicta* from

Plaintiffs have cited no controlling authority indicating a possible contract claim. Pl. Reply at 27-29; Tr. at 31-37, 65-66. In our view, no such claim exists.

V

Plaintiffs' contention that the extension of Social Security taxes to sitting Article III judges violated the Compensation Clause is a pure question of constitutional law. There are no material facts in dispute. Therefore, defendant is entitled to judgment on Counts I and II, (Second Am.Cplt. at 7-8), as a matter of law. RCFC 56(c).

Plaintiffs' contention that they have a contract right to compensation is likewise a pure question of law involving no disputed material facts. Therefore, defendant is entitled to judgment on the contract claim, (Count III, Second Am.Cplt. at 8-9), as a matter of law. RCFC 56(c).

Based on the foregoing, plaintiffs' motion for summary judgment is DENIED, and defendant's cross-motion for summary judgment is GRANTED. Accordingly, judgment shall be entered in favor of defendant.

Each party shall bear its own costs.

Embry which, if read in isolation, indicates that sitting judges have a contract right to compensation.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 91-5039

JUDGE TERRY J. HATTER, JR., JUDGE GEORGE ARCENEAUX, JR., JUDGE PETER H. BEER, CHIEF JUDGE JUAN G. BURCIAGA, JUDGE A.J. MCNAMARA, JUDGE HARRY PREGERSON, JUDGE RAUL A. RAMIREZ AND CHIEF JUDGE THOMAS A. WISEMAN, JR., PLAINTIFFS-APPELLANTS,

v.

THE UNITED STATES, DEFENDANT-APPELLEE

[Filed: Jan. 16, 1992]

Before: ARCHER, PLAGER and RADER, Circuit Judges.

RADER, Circuit Judge.

Terry J. Hatter, Jr., et al., life-tenured federal judges, appeal the dismissal of their complaint by the United States Claims Court. *Hatter v. United States*, 21 Cl.Ct. 786 (1990). The judges allege that imposition of social security taxes diminished their compensation in violation of the United States Constitution. The Claims Court dismissed their complaint for lack of jurisdiction. Because the Tucker

Act gives the Claims Court jurisdiction over claims of salary diminution under Article III of the Constitution, this court reverses and remands.

BACKGROUND

In 1983, Congress passed the Social Security Amendments of 1983. *See* 42 U.S.C. § 410(a)(5)(C)-(G) (1988). This Act extended social security coverage to many Government employees, including federal court of appeals and district court judges.* Previously, federal judges were exempt from paying social security taxes.

On January 1, 1984, the Social Security Amendments imposed Federal Insurance Contributions Act ("FICA") taxes on federal judges. From 1984 to 1989, plaintiffs each paid the following amounts in FICA taxes:

YEAR	*TAX*
1984	$2,532.60
1985	$2,791.80
1986	$3,003.00
1987	$3,131.70
1988	$3,379.50
1989	$3,604.80

On December 29, 1989, plaintiffs filed a complaint in the Claims Court. In count I, plaintiffs contend that the 1983 Amendments "unlawfully diminished and continues to diminish plaintiffs' compensation in vio-

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* No member of this panel was an Article III judge in 1984. Therefore, no panel member suffered an alleged diminution in salary when the 1983 Amendments took effect.

lation of Article III, Section 1, of the Constitution of the United States." Under this count, plaintiffs sought monetary damages to compensate for their diminished wages. Count II claims that plaintiffs have an employment contract with the Government which protects them against diminishment of their compensation. Again, plaintiffs seek damages for breach of contract.

The Government moved to dismiss the complaint for lack of jurisdiction because plaintiffs did not file an administrative claim for a tax refund. *See* 26 U.S.C. § 7422(a) (1988). The Claims Court granted the Government's motion. Plaintiffs appealed.

DISCUSSION

This court must decide whether appellants have stated a case within the Claims Court's jurisdiction under 28 U.S.C. § 1491 (1988) (Tucker Act). Under the Tucker Act, the United States has waived sovereign immunity for suits in the Claims Court:

> The United States Claims Court shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort.
>
> 28 U.S.C. § 1491(a)(1).

The Tucker Act alone, however, does not create a substantive right to collect money damages from the United States. *United States v. Testan*, 424 U.S. 392, 398, 96 S.Ct. 948, 953, 47 L.Ed.2d 114 (1976); *Eastport*

S.S. v. United States, 372 F.2d 1002, 1007-09, 178 Ct.Cl. 599 (1967). Rather, the Act empowers the Claims Court to award damages for the violation of substantive rights embodied in the Constitution, federal statutes, executive regulations, or federal contracts. *United States v. Mitchell*, 463 U.S. 206, 216-17, 103 S.Ct. 2961, 2967-68, 77 L.Ed.2d 580 (1983).

Thus, to invoke Tucker Act jurisdiction, claimants must show that their claim arises under an independent source of federal law. Moreover, the federal law or contract, fairly interpreted, must provide a damages remedy for violations. *Id.* In sum, appellants must show their claim arises from a federal constitutional, statutory, regulatory, or contractual provision that provides damages for its breach.

Appellants base their Tucker Act claim on Article III, Section 1, of the United States Constitution:

> The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

U.S. Const. art. III, § 1. Appellants thus invoke the Constitution as an independent source of federal law providing for the payment of money.

This provision of the Constitution, fairly interpreted, mandates the payment of money in the event of a prohibited compensation diminution. This provision states, in mandatory and unconditional terms, that judges' salaries "shall not be diminished during their Continuance in Office." This language presupposes damages as the remedy for a governmental act violating the compensation clause. Only a timely re-

storation of lost compensation would prevent violation of the Constitution's prohibition against diminution of judicial salaries.

Thus, the Constitution mandates that federal judges must receive, "during their Continuance in Office," compensation for their services which may not be less than their compensation upon assuming office. In the event of a violation of this clause, the Constitution itself provides a remedy—compensation. In sum, by forbidding any diminution of judicial compensation, the Constitution itself requires repayment of prohibited reductions in compensation to Article III judicial officers.

The history of the compensation clause supports this court's reading that a violation of the clause mandates repayment or compensatory damages. According to James Madison's notes, the delegates to the Philadelphia Convention discussed the compensation clause on July 18, 1787. 2 Max Farrand, *The Records of the Federal Convention of 1787*, 44-45 (1911). Gouverneur Morris proposed wording the compensation clause to prevent "any improper dependence in the Judges." *Id.* James Madison, in response, shared Morris's view that the Constitution should reduce any dependence by the judicial branch on the other branches for compensation. *Id.* at 45. Alexander Hamilton, too, explained the compensation clause:

> Next to permanency in office, nothing can contribute more to the independence of the judges than a fixed provision for their support. . . . In the general course of human nature, *a power over a man's subsistence amounts to a power over his will.* And we can never hope to see realized in

> practice the complete separation of the judicial from the legislative power, in any system which leaves the former dependent for pecuniary resources on the occasional grants of the latter.

The Federalist No. 79, at 472 (Alexander Hamilton) (emphasis in original) (Clinton Rossiter ed., 1961). These framers of the Constitution shared a common vision of the undiminishable compensation clause.

These observations by the framers of the compensation clause underscore its importance to the preservation of judicial independence in a system of separated powers. These comments also suggest that judicial officers deprived of full compensation need not rely on legislative or executive action for a remedy. To require further legislative or executive actions to enforce the compensation clause would frustrate Article III's purpose of judicial independence. The purpose of Article III, § 1, as well as its language, embraces a self-executing compensatory remedy.

The Supreme Court has also considered whether an alleged violation of the compensation clause provides Tucker Act jurisdiction. *United States v. Will*, 449 U.S. 200, 101 S.Ct. 471, 66 L.Ed.2d 392 (1980). In *Will*, several federal judges sought review of four statutes purporting to stop or reduce cost-of-living increases for judges. The Court concluded that two of the four statutes purported to roll back judicial salary increases already in effect. These statutes violated Article III, § 1. *Id.* at 226, 230, 101 S.Ct. at 486, 488. Any legislative attempt to rescind those effective salary increases would diminish judges' compensation. The Court upheld the other two statutes because they affected salary increases not yet in effect. *Id.* at 229, 101 S.Ct. at 487. Therefore, those two

statutes did not diminish judicial salaries. The case was remanded to the trial court to determine money damages. *Id.* at 230-31, 101 S.Ct. at 488.

To reach these substantive results, the Court necessarily examined the jurisdiction of the trial courts to enforce the compensation clause. The Court stated that both the Court of Claims, the predecessor to the Claims Court's trial jurisdiction, and district courts had jurisdiction to determine whether the four statutes violated Article III, § 1. The Court stated:

> [T]here is no doubt whatever as to this Court's jurisdiction under 28 U.S.C. § 1252 or that of the District Court under 28 U.S.C. § 1346(a)(2) (1976 ed., Supp. III).

Id. at 210-11, 101 S.Ct. at 478 (footnote omitted). "Jurisdiction being clear," *id.* at 211, 101 S.Ct. at 479, the Court proceeded to the next inquiry.

The Court felt jurisdiction was "clear" based on 28 U.S.C. § 1346(a)(2). In a footnote, the Court explained:

> This provision confers on the district courts and the Court of Claims concurrent jurisdiction over actions against the United States based on the Constitution when the amount in controversy does not exceed $10,000.

Id. at 211, n. 10, 101 S.Ct. at 478, n. 10. Section 1346(a)(2) of title 28, also known as the Little Tucker Act, mirrors the Tucker Act. It provides district courts concurrent jurisdiction with the Claims Court to handle claims against the United States, "not exceeding $10,000 in amount, founded either upon the Constitution, or any Act of Congress." The Supreme

Court found jurisdiction in the district court for the *Will* plaintiffs under the Little Tucker Act.

The only jurisdictional difference between the appellants in *Will* and the plaintiffs in this case is the amount in controversy. Plaintiffs in this case seek more than $10,000 in damages. The Supreme Court found jurisdiction under the Little Tucker Act in the district court for the *Will* plaintiffs. The Tucker Act provides jurisdiction in the Claims Court for the plaintiffs in this case.

The Claims Court erred by recharacterizing plaintiffs' action as solely a request for a tax refund. Plaintiffs' complaint sought damages for violation of the compensation clause. Nonetheless, the Claims Court read their claim as a tax refund suit. The Claims Court erred by imposing a single legal theory on the plaintiffs' complaint.

The Federal Rules of Civil Procedure permit parties to pursue their claim on any viable legal theory. Fed.R.Civ.P. 8(e)(2). In this case, plaintiffs could have pursued a tax refund. If they had, as the Claims Court noted, title 26 would have required a prior administrative claim. *See*, 26 U.S.C. § 7422(a). Plaintiffs, however, did not pursue a tax refund. Instead they sought damages for violation of Article III, § 1—an action which is within the Tucker Act jurisdiction of the Claims Court.

By requiring prior filing of an administrative claim with the Internal Revenue Service for a compensation clause violation, the Claims Court overlooked the language and purpose of Article III, § 1. Conditioning redress of an alleged compensation clause breach on executive branch actions would frustrate the purpose of Article III, § 1. The Constitution provides a com-

pensatory remedy without need for reliance on other branches.

The Claims Court based its recharacterization of plaintiffs' action on two cases, *O'Malley v. Woodrough*, 307 U.S. 277, 59 S.Ct. 838, 83 L.Ed. 1289 (1939), and *King v. United States*, 390 F.2d 894, 182 Ct.Cl. 631 (1968), *rev'd on other grounds*, 395 U.S. 1, 89 S.Ct. 1501, 23 L.Ed.2d 52 (1969). In *O'Malley*, the plaintiffs challenged the validity of federal income taxes because withholding revenues allegedly diminished federal judges' salaries. The Court determined that Article III did not bar Congress from imposing a non-discriminatory income tax on federal judges. *O'Malley*, 307 U.S. at 282, 59 S.Ct. at 840. *O'Malley*, however, does not affect the jurisdiction of the Claims Court. Contrary to the Claims Court's statement, *Hatter*, 21 Cl.Ct. at 789, the Supreme Court did not recast *O'Malley*'s plaintiffs' diminution claims as tax refund actions. The *O'Malley* plaintiffs elected to sue the Collector of Internal Revenue for a refund, rather than seeking damages. The *O'Malley* plaintiffs' election in the 1930s, however, hardly binds the *Hatter* plaintiffs in the 1990s. As noted earlier, the Tucker Act provides plaintiffs an independent action for damages based on a purported violation of Article III, § 1.

By improperly recharacterizing plaintiffs' action, the Claims Court also foreclosed an issue to be determined on the merits. *O'Malley* determined that federal income taxes do not have a discriminatory impact on federal judges. Plaintiffs have had no opportunity to demonstrate whether the social security tax is discriminatory. The Claims Court erred in foreclosing this issue without full con-

sideration of the merits. On remand, the Claims Court will have an opportunity to examine whether social security taxes have a discriminatory effect on federal judges.

The Claims Court also erred in viewing *King* as identical to this case for jurisdictional purposes. *Hatter*, 21 Cl.Ct. at 788. King was an Army Colonel who claimed that he had paid too much federal income tax because the Government misclassified his retirement status. The Court of Claims dismissed Colonel King's tax refund claim for failure to file a prior administrative claim with the Internal Revenue Service. *King*, 390 F.2d at 896. In equating the *Hatter* plaintiffs with Colonel King, the Claims Court overlooked pertinent distinctions.

First, plaintiffs in this case have an independent jurisdictional basis for their claim. Colonel King had no choice except to seek a tax refund. Second, unlike Colonel King, plaintiffs here do not challenge the United States' authority to impose a tax. Plaintiffs merely seek compensation to ensure that imposition of a tax does not diminish their salary. In sum, plaintiffs do not seek tax refunds, but compensation to ensure compliance with Article III, § 1. The Tucker Act provides the Claims Court jurisdiction to adjudicate this action.

CONCLUSION

Appellants' claim for relief states a claim within the jurisdiction of the Claims Court. Therefore, the decision of the Claims Court is reversed and this case is remanded for a hearing on the merits.

REVERSED AND REMANDED.

APPENDIX D

UNITED STATES CLAIMS COURT

No. 705-89 C

TERRY J. HATTER, JR., ET AL., PLAINTIFFS,

v.

UNITED STATES OF AMERICA, DEFENDANT

[Filed: Nov. 9, 1990]

OPINION AND ORDER

TURNER, Judge.

Plaintiffs are ten Article III* federal judges serving on various United States district courts and

* The designation stems from Article III, Section 1, of the United States Constitution which provides:

> The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, *receive for their Services a Compensation, which*

on one United States court of appeals. They bring this action pursuant to U.S. Const. art. III, § 1 (Compensation Clause) claiming that their compensation has been diminished by reason of the Social Security Amendments of 1983, Pub.L. 98-21, § 101, 97 Stat. 65, 68 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.). Plaintiffs seek damages in the amount of the Social Security taxes withheld from their salaries from January 1, 1984 to the present.

Defendant filed a motion to dismiss the complaint pursuant, *inter alia*, to RUSCC 12(b)(1). It alleges that this is a tax refund suit over which the Claims Court currently lacks subject matter jurisdiction because the plaintiffs failed to file an administrative claim for refund with the Internal Revenue Service as required by 26 U.S.C. § 7422(a). Hearing concerning defendant's motion was conducted on November 9, 1990 in Washington, D.C.

For reasons stated below, we conclude that the Claims Court lacks subject matter jurisdiction over the complaint at this time. Although plaintiffs characterize their claims as ones for damages other than a tax refund, we conclude that, in essence, their claims are for tax refunds which must be brought first before the IRS. 26 U.S.C. § 7422(a).

I

Prior to January 1, 1984, the salaries of Article III judges were not subject to withholding for Social Security taxes. Effective January 1, 1984, Congress amended the Social Security Act, 42 U.S.C. § 410(a)(5)(E) (1988), and the Internal Revenue Code of

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shall not be diminished during their Continuance in Office. [Emphasis added.]

1954, 26 U.S.C. § 3121(b)(5)(E) (1988), extending Social Security coverage to many previously exempt civilian government employees, including judges of the United States district courts and courts of appeals. Pursuant to this statute, the plaintiffs in this case had the following amounts withheld from their salaries during the years 1984 through 1989:

Year	*Amount Withheld*
1984	$2,532.60
1985	$2,791.80
1986	$3,003.00
1987	$3,131.70
1988	$3,379.50
1989	$3,604.80

All of the plaintiffs were appointed and took office prior to January 1, 1984, the effective date of the amendments. At the time of their respective appointments, the only mandatory deductions from their salaries were for federal and state income taxes. No mandatory deductions were made for retirement or for Social Security benefits. Plaintiffs now seek to recover as damages the amounts withheld for Social Security taxes.

II

Title 26 U.S.C. § 7422(a) provides in pertinent part:

> *No suit or proceeding shall be maintained in any court for the recovery of any internal revenue tax alleged to have been erroneously or illegally assessed or collected . . . or of any sum alleged to have been excessive or in any manner wrongfully collected, until a claim for refund or*

> *credit has been duly filed with the Secretary*, according to the provisions of law in that regard, and the regulations of the Secretary established in pursuance thereof. [Emphasis added.]

Plaintiffs concede that if the court determines that their claims are for tax refunds, then they must file an administrative refund claim with the IRS before suit may be brought in this court. *See* 26 U.S.C. § 7422(a). They argue, however, that this is not a tax refund suit but rather a claim for damages based on the diminution in compensation caused by withholding the Social Security tax from their salaries. To support their position, plaintiffs rely on the Court of Claims opinion in *Atkins v. United States*, 556 F.2d 1028, 214 Ct.Cl. 186 (1977), *cert. denied*, 434 U.S. 1009, 98 S.Ct. 718, 54 L.Ed.2d 751 (1978). They argue that since, according to *Atkins*, the court would have great flexibility in fashioning a remedy for a violation of the Compensation Clause, their claim is somehow distinguished from an ordinary tax refund suit. Plaintiffs argue that the court could provide a remedy by awarding damages or by ordering an appropriate increase in their salaries to counteract the effect of the Social Security deductions. The possibility of alternative relief, according to plaintiffs, demonstrates that defendant's characterization of their claim as one for a tax refund is mistaken.

Defendant argues that this is a tax refund suit, relying primarily on the Court of Claims opinion in *King v. United States*, 390 F.2d 894, 896, 182 Ct.Cl. 631, 633-34 (1968), *rev'd on other grounds*, 395 U.S. 1, 2, 89 S.Ct. 1501, 1501-02, 23 L.Ed.2d 52 (1969). In *King*, the plaintiff was a retired Army colonel who claimed that by misclassifying his armed services retirement

status, the government caused him to pay federal income taxes which he was not legally obligated to pay. King asserted that he should be allowed to maintain his claim even though he had not filed a refund claim with the IRS. The Court of Claims held that his monetary claim was barred because he did not file an administrative refund claim but granted him relief in the form of a declaratory judgment and was later reversed on this ground. 395 U.S. at 5, 89 S.Ct. at 1503.

Although *King* did not involve a diminution claim based on the Compensation Clause, we conclude that it is more analogous to the present case than *Atkins*. Plaintiffs attempt to distinguish their case from *King* on the ground that, unlike *King*, they do not challenge the government's authority to deduct Social Security contributions from their wages. Plaintiffs argue that if they are legally obligated to pay the Social Security taxes, then the diminution which results must be rectified. Putting aside semantics, we find that this is a tax refund suit. Like the plaintiff in *King*, plaintiffs here are asserting that they should be allowed to maintain their claim in this court even though they have not filled a refund claim with the IRS. For jurisdictional purposes, plaintiffs' position is identical to the plaintiff in *King* and we find it controlling.

The fact that the plaintiffs in *Atkins* brought a claim for damages is of no help to the plaintiffs in this case. The claim in *Atkins* was for a violation of the Compensation Clause based on alleged diminution in salary caused by inflation and by the failure of Congress to raise judicial salaries. Since *Atkins* did not involve alleged diminution by taxation, it did not

present a jurisdictional problem for the court similar to the one addressed in *King*.

The issue of whether taxes withheld from Article III judicial salaries constitute a diminution in violation of the Compensation Clause is not new. It was first brought before the United States Supreme Court in 1920 in a case involving income taxes. *Evans v. Gore*, 253 U.S. 245, 40 S.Ct. 550, 64 L.Ed. 887 (1920). Thereafter, each time the "diminution" issue has arisen in the context of income taxes, the claim originated as one against the IRS. *See Miles v. Graham*, 268 U.S. 501, 45 S.Ct. 601, 69 L.Ed. 1067 (1925), *overruled by O'Malley v. Woodrough*, 307 U.S. 277, 59 S.Ct. 838, 83 L.Ed. 1289 (1939). In *O'Malley*, the Supreme Court described the suit below as "an action at law to recover a tax on income claimed to have been illegally exacted." 307 U.S. at 278, 59 S.Ct. at 838. The Court further noted that the suit had been brought against the Collector of Internal Revenue and the plaintiff's claim for refund had been rejected. 307 U.S. at 279, 59 S.Ct. at 838-39.

None of the claims for violation of the Compensation Clause brought after *O'Malley* was based on taxes. *See United States v. Will*, 449 U.S. 200, 101 S.Ct. 471, 66 L.Ed.2d 392 (1980); *Duplantier v. United States*, 606 F.2d 654 (5th Cir. 1979), *cert. denied*, 449 U.S. 1076, 101 S.Ct. 854, 66 L.Ed.2d 798 (1981); *Atkins v. United States*, 556 F.2d 1028, 214 Ct.Cl. 186 (1977), *cert. denied*, 434 U.S. 1009, 98 S.Ct. 718, 54 L.Ed.2d 751 (1978).

We conclude that there is no logical reason to view a claim for diminution based on Social Security taxes differently from one based on income taxes. In order to obtain a refund of either, the claim must be brought before the IRS prior to filing a complaint in this

court. Manifestly, however artfully characterized, plaintiffs seek recovery of Social Security taxes which have been deducted from their salaries since January 1, 1984. Based on the Supreme Court's interpretation of diminution claims involving income taxes as claims for a tax refund rather than damages, the Court of Claims opinion in *King*, and the face of 26 U.S.C. § 7422(a), we conclude that plaintiffs' claims are for tax refunds over which this court lacks subject matter jurisdiction at this time.

III

Defendant's motion to dismiss filed on May 15, 1990, to the extent that it asserts this court's current lack of jurisdiction, *see* RUSCC 12(b)(1), is GRANTED. It is ORDERED that judgment be entered dismissing the complaint for lack of jurisdiction.

Each party shall bear its own costs. *See Johns-Manville Corp. v. United States*, 893 F.2d 324, 328 (Fed.Cir. 1989) ("the Claims Court has no power to award costs in cases over which it has no . . . jurisdiction").

APPENDIX E

UNITED STATES COURT OF APPEALS FOR FEDERAL CIRCUIT

No. 94-5139

JUDGE TERRY J. HATTER, JR., MARY MARTIN ARCENEAUX, ON BEHALF OF THE LATE JUDGE GEORGE ARCENEAUX, JR., JUDGE PETER H. BEER, JUDGE DUDLEY H. BOWEN, JR., CHIEF JUDGE JUAN G. BURCIAGA, JUDGE A. J. MCNAMARA, JUDGE HARRY PREGERSON, JUDGE RAUL A. RAMIREZ, JUDGE NORMAN C. ROETTGER, JR., CHIEF JUDGE THOMAS A. WISEMAN, JR., CHIEF JUDGE TERENCE T. EVANS, JUDGE HENRY A. MENTZ, JR., CHIEF JUDGE WILBUR D. OWENS, JR., JUDGE HENRY R. WILHOIT, JR., JUDGE HAROLD A. BAKER, AND CHIEF JUDGE MICHAEL M. MIHM, PLAINTIFFS-APPELLANTS,

v.

THE UNITED STATES, DEFENDANT-APPELLEE

[Filed: Dec. 26, 1995]

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEE, and a response thereto having been invited by the court and filed by the APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having

been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on January 2, 1996.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: December 26, 1995

/s/ By DIANE M. FRYE
DIANE M. FRYE
Chief Deputy Clerk

cc: STEVEN S. ROSENTHAL
JEANNE E. DAVIDSON

HATTER V US, 94-5139
(CFC - 89-705C)

APPENDIX F

UNITED STATES COURT OF APPEALS FOR FEDERAL CIRCUIT

No. 94-5139

JUDGE TERRY J. HATTER, JR., MARY MARTIN ARCENEAUX, ON BEHALF OF THE LATE JUDGE GEORGE ARCENEAUX, JR., JUDGE PETER H. BEER, JUDGE DUDLEY H. BOWEN, JR., CHIEF JUDGE JUAN G. BURCIAGA, JUDGE A. J. MCNAMARA, JUDGE HARRY PREGERSON, JUDGE RAUL A. RAMIREZ, JUDGE NORMAN C. ROETTGER, JR., CHIEF JUDGE THOMAS A. WISEMAN, JR., CHIEF JUDGE TERENCE T. EVANS, JUDGE HENRY A. MENTZ, JR., CHIEF JUDGE WILBUR D. OWENS, JR., JUDGE HENRY R. WILHOIT, JR., JUDGE HAROLD A. BAKER, AND CHIEF JUDGE MICHAEL M. MIHM, PLAINTIFFS-APPELLANTS,

v.

THE UNITED STATES, DEFENDANT-APPELLEE

[Filed: Aug. 30, 1995]

JUDGMENT

Appeal from a decision of the United States Court of Federal Claims in 89-705C entered June 24, 1994, Judge James T. Turner.

This CAUSE having been heard and considered, it is

ORDERED AND ADJUDGED:

REVERSED and REMANDED.

ENTERED BY ORDER OF THE COURT

DATED: AUG 30 1995

/s/ FRANCIS X. GINDHART
FRANCIS X. GINDHART, Clerk

ISSUED AS A MANDATE: January 2, 1996